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VOL. XXII

May · 1952

No. 5

• Bankruptcy Accounting	
The Position of the Accountant for the Financially Embarrassed Client— <i>Saul C. Hertz, C.P.A.</i>	271
Role of the Accountant for the Debtor-In-Possession in a Chapter XI Proceeding— <i>Paul Zahler, C.P.A.</i>	275
• Accounting Procedures in the Book Publishing Industry— <i>Charles Margolin, C.P.A.</i>	279
• Some Accounting Problems of Smaller Newspapers and Similar Publications— <i>Herbert H. Schueller, C.P.A.</i>	288
• Amelioration of Hospital Administrative Burden Via a Payroll Code Control— <i>Julian S. H. Wiener, C.P.A.</i>	296
• Frederick George Colley—Henry E. Mendes, C.P.A.	300
• A State Enters the Commercial Paper Market—Leo Rosenblum, C.P.A.	303
• Departments	
New York State Tax Forum— <i>Benjamin Harrowe, C.P.A.</i>	305
New York University Law Review—1951 Survey of State Taxation . . . Corporate Franchise Tax . . . Personal Income Tax . . . Estate Tax . . . Interest on Tax Claims . . . Jeopardy Assessments . . . Where Do You Bring Your Action in an Income Tax Proceeding? . . . Agreements to Pay the Income Tax of an Employee . . . Sale of Stock Rights . . . Franchise Tax—Exemption . . . Personal Income Tax—Installment Payments . . . Stock Dividends as Principal or Income.	
Accounting at the S.E.C.— <i>Louis H. Rappaport, C.P.A.</i>	310
Securities of Reorganized Companies . . . Amendment of Form 8-K.	
Notes on the New York State Unemployment Insurance Law— <i>Samuel S. Ress</i>	312
Value of Gratuities and Tips . . . Legislative Changes in the Unemployment Insurance Law . . . Federal Income Tax Withholding On N. Y. Disability Contributions . . . New Legislation.	
Office and Staff Management— <i>Max Block, C.P.A.</i>	315
System Data for Staff . . . Staff Rotation . . . Tax Return Reproductions—Added Note.	
The Excess Profits Tax Exchange— <i>David Zack, C.P.A.</i>	317
New Corporations . . . Dividend "Throw-Back" Rule—Epilogue . . . Extension of Base Period Loss Adjustment.	
Book Reviews	269, 319

Society and Editorial Offices: 677 Fifth Avenue, New York 22, N. Y.

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BOOK REVIEWS

Design and Control of Business Forms

By FRANK M. KNOX. MCGRAW-HILL BOOK COMPANY, INC., New York, N. Y., 1952. Pages: xii + 219; \$6.50.

"While no really authoritative figures exist on the subject, it is pretty well recognized that the clerical cost of using forms is many times greater than the purchase price . . . of those same forms," says Mr. Knox in the first chapter of his long-awaited book. After developing an estimate that the average company spends about \$8.00 to \$10.00 in clerical expense for every dollar it spends for forms, he goes on to observe, "It follows logically, then that eight to ten times more attention should be given to the design of forms from the standpoint of clerical expense than to the design from the standpoint of the printing or production cost. Usually the converse is true. In the case of the large majority of all forms, what attention is given to the subject is usually given to the methods or reproduction of the form (the paper, the cost of printing, or the office machine duplication of the form), not to the exact manner of its use by the clerical worker of the company."

He then develops the following thoughts:

1. The cost of clerical work can be reduced through correct forms design.
2. The designing of forms is a skilled operation in itself.
3. The mental attitude of clerical workers is affected by forms design.
4. The entry of data on forms is affected by the design of the form.
5. The filled-in data is more important than the printed data in the use of the form.
6. Incorrect forms design can cause expensive clerical errors.
7. Form cost can be reduced through standard design.

The book describes in explicit and concise fashion how to set up and run a forms control program, and how to design a business form. It has many illustrations showing examples of good and poor design.

"Design and Control of Business Forms" is highly recommended for those accountants who are interested in systems work. It is a great asset for a systematizer to be competent in the area of forms design, and there is no other single source which presents such a complete and authoritative fund of knowledge on this topic.

(Continued on page 319)

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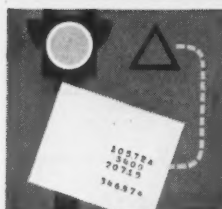
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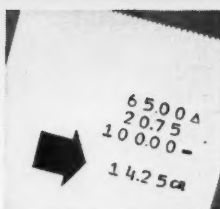
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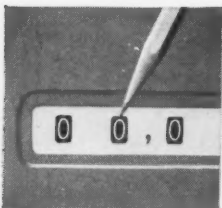
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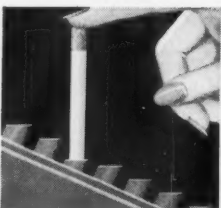
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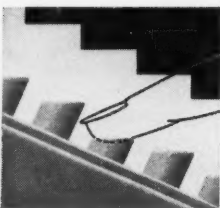
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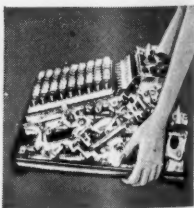
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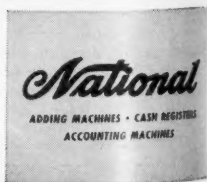
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THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT

EMANUEL SAXE, *Managing Editor*

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VOL. XXII

May • 1952

No. 5

The Position of the Accountant for the Financially Embarrassed Client

By SAUL C. HERTZ, C.P.A.

The professional man is called upon to serve small business in numerous ways in our present complex economy. When credit problems are involved, credit grantors rely heavily upon the information supplied them by the accountant. The client relies upon him to a great extent for wise counsel, particularly when he meets financial reverses. This paper endeavors to aid the accountant confronted with such problems.

A Calm and Fearless Approach Is Essential

At previous forums conducted by this Committee, we have emphasized the role of the accountant representing creditors' interests in insolvency matters. What about the accountant for a financially embarrassed debtor? What is his position? What are his duties

and responsibilities? From the questions asked by the accountants in the audience at previous meetings, it occurred to the members of the Committee that the role of the accountant for the financially embarrassed client deserves greater attention than has been given to the subject in the past. The fact that a client finds himself in such a predicament does not absolve the accountant from further responsibility.

The accountant almost invariably senses the condition before his client is fully aware of his problem. Those of us who have had experience in bankruptcy and insolvency matters know the importance of full disclosure of his true financial condition to the troubled debtor. The client must not be permitted to deceive either himself or his creditors. While this may seem to be a statement of the obvious, it is worthy of emphasis.

Consequences of Inadequate Preparation

In a recent case, a meeting of creditors was called at which the accountant presented some estimated figures of the

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This paper was presented by Mr. Hertz at a technical meeting of the Society held on November 27, 1951, at the Engineering Societies' Building, under the auspices of the Committee on Bankruptcy Procedure.

financial position. The debtor sincerely believed that his only trouble was his inability to meet current obligations. The accountant attended the meeting without an actual financial report. Although he had been engaged by the company since its inception, about ten months before, he said that no financial figures had ever been submitted. The debtor asked his creditors for assistance, since he desired to remain in business. In the circumstances however, it was impossible to consider a solution to the problem.

The creditors immediately insisted upon engaging accountants of their own choice to perform the very task the accountant for the debtor should already have done. Had the accountant come fully prepared, he certainly could have aided both his client and the committee in the ensuing discussion.

As a result of the negotiations that followed, the client was able to remain in business, and the accountants selected by the creditors' committee continued to serve the company. In view of these circumstances, the accountant should not have felt incensed at having been replaced. When an accountant appears before a meeting of creditors, he must be fully conversant with the operations of his client's affairs and ready to answer numerous questions.

Check-List of Items Meeting Needs of Credit Grantors

The following may serve as a guide for proper preparation in such situations:

1. A fully verified, properly prepared balance sheet and operating statement
2. Complete schedules of accounts receivable and accounts payable
3. Complete physical inventory, listing merchandise on hand by general classification, age, cost, and replacement or sound value
4. Forecast of operations or budget, if the debtor desires to continue in

the business, and a suggested schedule of changes to remedy the conditions that led to unprofitable operations and brought about the present situation

5. A statement of affairs, so that the creditors may be able to visualize the possible results of forced liquidation, if that should be their choice
6. A letter of comments giving a brief history of the company and a full analysis of operations that led to the financial difficulties
7. A schedule of insurance coverage, assuring creditors that during the period of negotiations the assets of the company will be well protected
8. A report on corporate records disclosing the names of officers, directors, and stockholders
9. A record of all sales orders listing quantity, prices, customers, and amounts, as well as delivery dates
10. A schedule of purchase commitments listing names, items, prices, amounts, delivery dates, and present market value of the items included
11. A statement of cash receipts and disbursements for a period of four months prior to the meeting, to assure the creditors that no preferences have been made in payment of obligations
12. A statement of contingencies, if any, patents, status of tax audits, and other information that would assist creditors in deciding whether the debtor should be permitted to continue or forced to liquidate.

Collaboration of Accountant and Debtor's Attorney

It is always to the benefit of the creditors and his client to invite an attorney, experienced in these matters, to represent the client in presenting any proposals that may be contemplated. The attorney will be guided by the advice and recommendations of the

The Accountant for the Financially Embarrassed Client

accountant. As to the possibility of continuation, the methods of operating under the surveillance of a creditors' committee, the desirability of liquidation, and the various methods of accomplishing liquidation, the accountant, then, must be well informed. He must be prepared not only to present the facts of the case in an orderly manner but also to make recommendations upon which both his client's attorney and the creditors' committee may act.

It may seem of little consequence to the debtor what form of liquidation takes place if that disposition of the case is decided upon. Actually, however, he may have a substantial stake in the results of the liquidation even though the proceeds are not his. For the greater the yield to creditors, the greater the chance that the debtor may in the future obtain credit in any new venture he may undertake.

Furthermore, wherever possible, liquidation should be avoided. That is to say, a business, the failure of which can be traced to remediable causes, may well have the rudiments of a successful enterprise once its shortcomings are corrected. In such instance, other alternatives to liquidation are available. Continuance in business may mean not only financial rehabilitation to the owner of an insolvent firm but also the elimination of the stigma of a "bankruptcy record." Among the methods available for a continuation with the debtor in possession are the composition and extension arrangements under chapter XI of the National Bankruptcy Act. Such proceedings have the disadvantages, however, of possible legal complications and court controls.

A common practice that is usually beneficial to the debtor and preferable to creditors is to invite one or more of the larger creditors to an informal meeting with the attorney for the debtor and his accountant. It must be realized that frequently, where a small corporation is involved, the stockholders are personally responsible, under guarantees, for corporate debts. If the

debtor liquidated his business under a plan acceptable to creditors, he would have a better opportunity of relieving himself of financial responsibility under these guarantees either fully or partially.

Proper Relationship with Creditors

It has sometimes been charged that creditors have used accountants for the purpose of checking credits for them. When he is questioned regarding the affairs of a debtor, the accountant should divulge financial facts regarding a client's business only after having obtained the consent of the client to do so. These facts should be truthful as well as complete. Contrary to the impression held by many accountants and debtors, it will not hurt the client to reveal losses that have actually taken place. Withholding such information would only tend to mislead creditors and do more damage than a forthright statement of the truth. If the creditor feels assured that he has received truthful information, even though it is bad, he at least knows that that is the worst picture. On the other hand, if he is left with a feeling that the information given him is incorrect or incomplete, he will assume that the condition is far worse than it actually is. Undoubtedly, such a strained relationship between debtor and creditor is more detrimental to the debtor than one in which the creditor is fully and correctly informed. The creditor who is properly apprised of the debtor's position and asked to come to his assistance will be more amenable to the suggestion of an orderly solution to the problem.

Illustrative Case—An Informal Arrangement

It may interest you to know the manner in which a pertinent problem was recently handled, and the results. Mr. X was the sole stockholder of a corporation doing a volume of about five million dollars per annum. By the Spring of 1951 he found himself not only overlaid with inventory that had

declined in value, but also with contracts for merchandise that had not yet been delivered. These contracts involved serious potential losses by reason of the difference between the contract prices and current replacement costs. The year before, the company had issued a financial statement showing a net worth of approximately \$500,000. A new statement as at June 30, 1951, indicated that all the profits earned from July 1, 1950, to December 31, 1950, which were substantial had been lost since the latter date plus approximately \$250,000 more. In preparing the statement as at June 30, however, all goods were marked down to the lowest price at which they could then be bought, and, in addition, a reserve was provided for the full loss on undelivered contracts. The company was still indebted to the trade for approximately \$800,000, much of which, by this time, was past due. Of the total amount of the indebtedness, approximately \$500,000 was owed to about six firms, including the bank. A complete financial report was immediately prepared and certified, which indicated that the company was still more than solvent and that there were strong possibilities for correcting its heavy inventory condition. It was decided that a general meeting, even of the larger creditors, would be more harmful than beneficial to creditors as well as the debtor. The accountant, therefore, personally visited each of these few larger creditors and procured their consent to a financial plan that provided for the following:

1. All small creditors would be paid as bills matured
2. No payment would be made to the

larger creditors until inventories had been amply liquidated

3. All creditors would continue to extend credit for new merchandise within the budget
4. When funds become available, they would be distributed among the co-operating creditors in proportion to their claims
5. If the debtor sustained further losses and indicated his inability to change the trend of the company, he would submit to liquidation.

It is gratifying to state that subsequently all the old debts were fully met and the debtor is now enjoying a little prosperity as well as the friendship and respect of his creditors. The efforts of the accountant in this situation were beneficial to his client, the creditors, the bank and, immeasurably, to himself. One might say that the hardships experienced frequently result in gains that could never otherwise be achieved. The accountant has an opportunity to serve the community and enrich his good name by this co-operative and appropriate method of service.

One may well ask who is going to pay for the work required in these circumstances. The accountant, as a professional man, should realize that his interest in his work, the gratification of a job well done, must be of greater importance than any financial remuneration that may result. Fortunately, strange as it may seem, the financial reward is usually greater to the accountant who ignores it than to the one who insists upon giving it the most prominent place in his relationship with clients.



Role of the Accountant for the Debtor-In-Possession in a Chapter XI Proceeding

By PAUL ZAHLER, C.P.A.

Insolvency investigations frequently present to the practitioner many involved problems of a legal, as well as an accounting nature. These were augmented by the enactment of Chapter XI of the National Bankruptcy Act. The author, in this article, points out certain aspects of Debtor-in-Possession proceedings that are worthy of the accountant's consideration. He also emphasizes that close cooperation with the attorneys concerned is a prerequisite for a successful engagement.

Introduction

It has been very clearly stated that a Chapter XI proceeding is one initiated by an embarrassed debtor, pursuant to the provisions of the Bankruptcy Act for the purpose of effecting an arrangement with his (or its) creditors. In such proceedings the petitioner is known as the "Debtor." Where the Debtor is permitted to continue the business, as is often the case, he is referred to as the "Debtor-in-Possession". In this paper, despite the legal distinction, the terms will be used interchangeably.

The accountant for such Debtor-in-Possession plays an entirely different

role than the accountant for the financially embarrassed client. In order to comprehend better the work of the accountant for the Debtor-in-Possession, perhaps a resume of the events leading up to his retention might be enlightening.

Accountant's Retainer

In these arrangement matters, the accountant is often retained either with the consent of or at the request of the Creditors' Committee, pursuant to a formal petition of the Debtor which has been granted by the Court. At the present time, petitions for the retention of accountants in matters administered in the Eastern District of New York (Kings, Queens, Richmond, Suffolk and Nassau Counties) are acted upon by the Judges of the United States District Court. However, in the Southern District of New York (including Bronx, New York, Westchester and Putnam Counties, and several others) such petitions are passed upon by the respective Referees in Bankruptcy to whom the individual cases have been assigned.

The background for an accountant's retention in this type of proceeding is as follows:

- 1—Tentative designation of the accountant by the Debtor or Creditors' Committee, or jointly.

PAUL ZAHLER, C.P.A., is a partner in the accounting firm of Paul Zahler & Company, CPA's. He has been a member of the Society since 1935 and is presently serving on its Committee on Bankruptcy Procedure. He is a member of the New York Credit & Financial Management Association and also serves on the arbitrators' panel of the American Arbitration Association.

This paper was presented by Mr. Zahler at a technical meeting of the Society held on November 27, 1951 under the auspices of the Committee on Bankruptcy Procedure at the Engineering Societies Building in New York City.

The New York Certified Public Accountant

- 2—Preliminary survey by him of the books and records, as well as the circumstances responsible for the financial difficulties.
- 3—Discussion with the Debtor and/or Creditors' Committee concerning the services needed or required, and a verbal agreement relative thereto.
- 4—Submission by the accountant of a memorandum describing the services to be rendered, and estimating both the time to be spent and the cost thereof (requirement in accordance with Rule 45 of the U. S. Supreme Court).
- 5—The Attorney for the Debtor, using the aforementioned memorandum as a basis, prepares a formal petition for the signature of his client, obtains the consent of the Attorney for the Creditors' Committee, and then submits it to the Federal Court, or Referee in Bankruptcy, as the case may require.
- 6—The Court (or the Referee in Bankruptcy) may either grant, deny or modify such petition.

At this point, it is deemed important to caution practitioners against rendering services in such proceedings without first having obtained a Court order. Even such order, however, is no guarantee that the accountant will receive the maximum compensation that is stated therein. Mortimer J. Davis, the Executive Vice-President and Manager of the New York Credit and Financial Management Association, has very aptly termed such an order as a "hunting license." However, the results are sometimes very worthwhile.

In connection with the matter of the Committee's consent, to which earlier reference has been made, some of the prerequisites are:

- 1—That the accountant is qualified to

conduct an independent investigation of the affairs of the Debtor, utilizing knowledge and experience that are peculiar to insolvency matters.

- 2—That he has the confidence of the Committee, the Debtor, and the Court.
- 3—Sometimes, there is the further requirement that he be one who has not previously represented the Debtor or its principals.

Scope of Engagement

It should be apparent that the work of the accountant in a Chapter XI proceeding will, of necessity, vary greatly with each case because his services are restricted to those that were set forth in the original retention order, supplemented by the additional orders, if they were obtained. In implementing these Court directives, some of the factors which will affect the scope of the accountant's engagement are as follows:

- 1—The nature and length of time that the Debtor was in business, as well as his reputation.
- 2—The amount and nature of his assets and liabilities, not only as set forth in the schedules accompanying the petition for arrangement, but also as gleaned from the preliminary survey of the books and records.
- 3—The extent of the operations of the business.
- 4—The duration of the period of the proceedings. (Sometimes, they are consummated within a few months and, oftentimes, a year or more may elapse.)
- 5—Amount of compensation that can be reasonably expected.

From the foregoing, it is obvious that the accountant must exercise considerable judgment and ingenuity in formulating an audit program that

will meet the requirements of all concerned.

Contents of Report

At the inception, the major responsibility of the accountant revolves around his investigation of the affairs of the Debtor and the submission, at an early date, of copies of his formal report to the Debtor, Creditors' Committee, and their respective attorneys. The contents of such report may include:

1—History of the business, its capitalization and management, and analysis of the reasons for its financial distress.

2—Balance Sheet, supported by detailed schedules as of the date of the proceedings. In this statement, the assets should be grouped on the basis of whether they are pledged or free, and secured obligations should be deducted from the assets to which they relate. Further, Accounts Receivable credit balances as well as Accounts Payable debit balances should be shown separately on the statement.

Liabilities should be shown in three groupings, namely, priority, secured and unsecured.

It is also desirable to present pertinent comments regarding the more important items on the financial statement, if they will be deemed to be helpful in the evaluation of same by the Debtor or Creditors' Committee.

Oftentimes a Statement of Affairs is appropriate.

3—Comparative Balance Sheets, in condensed form, for past years.

4—Comparative Profit and Loss Statements, by years, together with an analysis of the operations on a percentage and/or unit basis. This is frequently

helpful in uncovering some of the underlying weaknesses of the business.

5—Summary of discrepancies, if any, between the books and records and the financial statements that were issued to credit agencies and others.

6—Schedule of irregular transactions during the period prior to the date of the Chapter XI proceedings. This may include withdrawal of capital, transfer of assets without proper consideration, etc.

7—Schedule of possible preferential payments, by cash or otherwise, which were made to affiliated companies, principals, creditors, etc., during the preceding four month period or longer. The subject of preferences is fraught with involved legal technicalities and the practitioner therefore should be versed in the elements of preferences, both under the Federal Bankruptcy Act and the state Debtor and Creditor Law.

8—Comments regarding the schedules and plan of arrangement that was filed by the Debtor. Generally the initial proposal submitted by the Debtor is merely a stop-gap plan, because of the requirement of the Bankruptcy Act, and is vastly different from the one that is finally approved. Criticisms and constructive suggestions that the accountant can make, which will be helpful in the formulation of a fair, equitable and feasible plan, are within the province of his engagement. Of course, such comments must be based upon the facts revealed by his examination coupled with his specialized accounting and/or business background. Further, his comments should be rendered in

a most tactful manner, in order to invite dispassioned consideration from all parties to the proceeding.

It may be well to reiterate that the scope of the audit report will depend upon the circumstances of each individual case. Frequently, a more limited report than the one described above will suffice. On the other hand, sometimes more comprehensive ones are warranted.

Further Accounting Services

After the accountant has submitted his report, he should be prepared to confer with the Debtor and Creditors' Committee, or their attorneys, either separately or jointly.

Sometimes, after he has rendered his report, the accountant is further retained during the pendency of the proceedings for the purpose of making the periodic audit. (Here, too, a Court order is often required.) In connection with such examinations, it is desirable that the audit program be enlarged to embrace those phases that are of particular interest to the Committee and to the Court. Further, an adequate number of copies of the audit report should be available for submission to the Debtor, Creditors' Committee, and their respective attorneys, as well as to the Court.

Inasmuch as the transactions subsequent to the date of the Chapter XI petition must be kept separate because of legal requirements, the accountant should, after consultation with the attorney for the Debtor, prescribe the revisions that are needed in the bookkeeping system.

The Court requires a Debtor-in-

Possession to file statements, usually monthly, of cash receipts, disbursements, etc., and the accountant may therefore be called upon either to prepare or verify these.

Concluding Remarks

Until such time as the Chapter XI proceedings are terminated, either by formal confirmation of the Debtor's plan or by subsequent bankruptcy proceedings, the accountant occupies a very delicate position because of his dual relationship with the Debtor and Creditors, in addition to the Court. It is, therefore, most important that he and his staff perform their duties with the highest degree of efficiency and independence.

The exercise of sound judgment and extreme discretion was never more important than in engagements of this character, because the manner in which inherent weaknesses and/or gross irregularities in the business are reported by the accountant may vitally affect the entire course of the proceedings. The Debtor should, therefore, be afforded every opportunity to supply complete explanations, wherever required, in order to prevent unwarranted criticism, from any source, from being injected into the proceedings.

The subject of Chapter XI proceedings is comparatively new, consequently very little has been written concerning its accounting aspects. If some of the thoughts expressed herein prove helpful to some practitioners in performing their duties with credit to their profession and to themselves, then the efforts entailed in the preparation of this paper will be deemed amply rewarded.



Accounting Procedures in the Book Publishing Industry

By CHARLES MARGOLIN, C.P.A.

Following an outline of the operations involved in the book publishing industry, the author discusses the related accounting problems and procedures.

The Book Publishing Industry

A book publisher must perform four important tasks:

1. He must prepare a list of books to be published.
2. He must control the physical production, directly or indirectly.
3. He must control the distribution.
4. He must keep proper records.

List of Published Books

The maintenance of a good book list is obviously the heart of the book publisher's work. It will do the publisher little good to be able to design and manufacture beautiful books, or to distribute them with competence, or to keep records which reveal vital information at a glance, if he has not assembled a list of books that will appeal to the readers. The essential functions of book publishing are interrelated with the activities of other factors, namely, authors, book manufacturers on one

hand, and with wholesalers and retailers for distribution, on the other.

The Manuscript

The manuscript is the backbone of the publisher. It is submitted by the author or his agent. It is read by the editorial staff. A report is prepared by the editorial department accepting it or rejecting it.

Manuscripts are often sought out by the publisher and written to order. This results from the publisher's foresight, imagination and experience, prompting him to suggest a subject for a book, frequently on a topic of current interest.

The Editorial Department

The editorial department is the key department of book publishing. It lays down the general policy of book publishing, passes upon all manuscripts, and is in close touch with authors and prospective authors. It makes all contracts and recommends advance payments to authors.

Before any publication goes to the printer, there should be time for editorial planning; this means planning the publication as an integral part of the over-all program or campaign. Without such planning, any publication may misfire or fall short of its potential. The planning will cover illustrations, use of color, printing process, the number of copies to be run, where the publication is to go, and to what kind of readers, audience, etc. The editorial department is in close touch with the pro-

CHARLES MARGOLIN, C.P.A., is a member of our Society and of the American Institute of Accountants. He is the Chairman of our Committee on Graphic Arts and Allied Industries Accounting.

This paper was presented by Mr. Margolin at a technical meeting conducted last year under the auspices of this committee at the Engineering Societies' Building in New York City.

duction department on planning of publications.

Where the editorial department maintains separate editors for each type of book, the overhead should be charged to each division of sales. Where more than one type of book is served by the same editor, the overhead should be pro-rated and charged accordingly, provided this can be done with reasonable accuracy.

The Production Department

The functions of this department are as follows:

1. To design the book; to give the manuscript a good physical presence.
2. To select or specify the principal materials.
3. To route the materials so that they are assembled at the right time and place.
4. To buy the physical book, as designed, at the lowest possible unit cost with due regard to quality.
5. To control and guide manufacturing so that the distributors have as many copies as they need when they are ready for them.
6. To regulate the quantities ordered; this is based on a forecast of possible sales, as determined by the sales department.
7. To arrange relations with the book manufacturer and material suppliers, so that all these functions are carried out as efficiently and smoothly as possible.

These functions are direct, but not simple, as they involve a knowledge of a number of special techniques and trade relations.

Book Distribution

Book publishers are engaged in the production and distribution of many types of books; trade, fiction and non-fiction, juvenile, text, religious, scientific, business, technical, arts and

drama, reprints, and others. Distribution is made through many outlets:

1. Regular bookstores.
2. Department stores.
3. Schools and colleges.
4. Book clubs.
5. Reading circles.
6. Depositories.
7. Direct mail.

Distribution is also made through jobbers, also known as wholesalers, who resell to other book outlets. Cheaper priced books are distributed through chain stores, newstands and similar chain organizations.

Publishers who market more than one class of books, departmentalize the production and distribution. Each type of book has different editorial and manufacturing responsibilities, and the source of distribution varies.

Terms of Distribution

Distribution is made on regular terms, on-sale or return basis and consignment. Occasionally there is a misunderstanding as to the meaning of "on-sale or return basis" and "consignment", and it is fitting at this point to differentiate the two methods of distribution. Under the Uniform Sales Act, where delivery of merchandise is made on on-sale or return basis, title to the property passes on delivery, but the buyer may revest the property in the seller by returning or tendering the property within the time fixed in the distribution agreement; or if no time is fixed, within a reasonable time. In the case of consignments, title to the property does not pass on delivery, and it may be returned to the consignor at any time.

Trade discounts to the booksellers vary. They are based on quantities sold. Special discounts* are extended to wholesalers who purchase in large quantities and resell to book outlets. Short discounts are given on books for

* There is at present pending before the Federal Trade Commission the question of discriminatory pricing practices in discount terms to wholesalers.

text purposes. Most publishers maintain their own scale of trade discounts.

Return Privilege on Trade Books Extended to Booksellers

Where distribution is made on regular terms, the booksellers who are in good credit standing are given return privileges on certain trade publications. The booksellers may return books for credit provided they advise the publishers of their intention to return within a specified time. Some book publishers allow only ninety percent credit of invoice value; others have different arrangements.

The Book Publisher's Income

There are two sources of income:

1. Direct income, from the sale of books.
2. Indirect income, from the sale of subsidiary rights.

(Some publishers consider this direct income. See subsequent comments under Income from Subsidiary Rights.)

Income from the sale of subsidiary rights arises out of:

- A. Book club selections.
- B. Reprint editions by other publishers.
- C. Serializations.
- D. Digests.
- E. Anthologies.
- F. Motion pictures and/or dramatic rights.
- G. Radio and/or television broadcasting.
- H. Foreign sales, including translation.

Author's Share of Subsidiary Income

The author shares in the proceeds from the sale of subsidiary rights in accordance with the terms of the contract. Such income is divided on an equal basis, with certain exceptions: publication by British or other foreign publishers of editions in English out-

side of the United States; radio and motion pictures and first serializations, etc. First serial rights, as a rule, are payable to the author in full. Popular authors retain exclusive rights to first serializations. Occasionally, the publisher will receive a commission for the sale of these rights.

Distinction Between First and Second Serial Rights

In first serializations, the author or his representative, sells the rights to newspapers and/or magazines for publication *prior* to date of book publication. In the case of second serializations, the rights are sold by the publisher to syndications for publication in newspapers and/or magazines *after* book publication.

Income from Sales

Sales analysis of a product is a basic requirement in all accounting for costs. In book publishing, this means a breakdown of sales according to types of books. Since different classes of books have their own sales and cost problems, they should be departmentalized for presentation to management. Separate divisional statements of profit and loss are vital to a clear picture of what is happening in a business, where different commodities are involved. Profit margins and expense ratios vary greatly for different types of books. All expenses allocable to each class of sale should be applied.

Income from Subsidiary Rights

Some book publishers consider this income an expected source of income. Others consider this income incidental to profit or loss from the sale of books.

- A. Where income from subsidiary rights is considered a direct income, it is added to gross profit on sales, subject to all operating expenses. This method does not disclose the profit or loss on the sale of books on the operating statement.

- B. Where this income is classified as indirect income, following the net operating results from the sale of books, the actual profit or loss on book operations is fully disclosed.

It is a matter of opinion among book publishers as to how much time is devoted to the sale of subsidiary rights. Where the accounting treatment is used as outlined under A, above, the operating expenses are applied against income from sales and subsidiary rights. Where the accounting treatment is used as outlined under B, above, a proportionate part of the overhead may be allocated to income from subsidiary rights.

Profit or Loss on Sale of Books

A difficult problem arises today, when retail prices of publications have to be increased to meet high manufacturing costs and operating expenses. You cannot arbitrarily increase the retail price of books, without giving due consideration to sales possibilities. It cannot be advanced beyond a point without ultimate injury to their sale. The number of books to be sold to reach the break-even point has increased considerably. Although forecasts are made of sales expectancy, there are many disappointments. Sales fall below the break-even point, resulting in losses instead of profits. As a trade custom, many unprofitable titles are published for the purpose of retaining an author whose future writings may be profitable. Very often books will sell at a loss, but have good subsidiary income possibilities. Many books that have become best-sellers, have revived previous publications by the same authors.

Although every effort is made in planning publications to provide for a profit on sales, this does not always materialize. The present high costs makes the problem very difficult. In view of this situation, many book publishers have to look to income from subsidiary rights to show a profit.

The Book Publisher's Costs and Expenses

The number of operations in book manufacturing is considerable and includes the following:

Linotype or montotype operations—
setting up the type for printing.
Proof reading from galleys.
Make-up of type into pages.
Checking galley corrections in page-proof.
Plate making.
Make ready on cylinder or rotary presses.
Printing of sheets from type or plates.
Binding begins after the printer has laid the ink on the paper.

The binding operations consist of:

Cutting. *Stitching, or sewing.*
Folding. *Trimming.*
Gathering. *Casing in.*

Other operations consist of rounding and backing, adding backbone reinforcement (called lining up) making the covers or cases, stamping and examination of the completed book. The books are jacketed before they are delivered to the manufacturer's warehouse for the account of the publisher.

To summarize the direct production costs:

- A. *Paper* for the book and jacket.
- B. *Cloth and other materials* necessary in the production of the book.
- C. *Presswork* for the book and jacket.
- D. *Binding.*

Miscellaneous charges to production cost consist of type storage, inward freight on materials consumed in the manufacturing operations, etc. Composition, plates, artwork and corrections are charged to plant expense.

Invoices are presented by the manufacturer to the publisher in the following order: for composition (typesetting), plates and presswork. Paper usually, cloth, occasionally, are supplied by

the publisher. Invoices for binding are rendered when the books are ready for delivery. Special arrangements call for rendering of invoices when the books are delivered to the publisher, or for his account. Undelivered books are kept in the manufacturer's warehouse for future delivery. In accordance with a trade practice established by the book manufacturers, books are kept by the manufacturers for the account of the publisher for a certain period. At the expiration of the period the manufacturers render an invoice for the balance of the binding charges. Pending the receipt of an invoice for the balance of the binding charges, the publisher sets up a deferred liability for binding charges; this will be further explained under deferred binding charges.

Printed Sheets

Very often, a quantity of printed sheets remain unbound until additional books are required for future sales. Some publishers do not bind the entire edition, when it appears that the total quantity may not be disposed of. A binding cost is eliminated when there is no need for further binding. Unbound sheets are also kept in inventory for sale to book clubs and other book distributors, who arrange for special bindings, and who bind their own books.

Cost of Books Sold (Unit Costing)

Cost records are maintained by the production and accounting departments; the former for the purpose of controlling production, the latter for the purpose of accounting. Some publishers maintain one cost record which is shared by both departments. The cost records contain the cost of printed sheets and bound books. The unit costs are shown for each edition.

The cost records are prepared from invoices received from the manufacturer, showing the press work and binding charges, and the number of copies printed and bound. The quantity

of paper and cloth consumed is transferred from the inventory accounts; this information is obtained from the production department.

The sales analysis is prepared by the accounting department, disclosing the titles and quantities sold during the period. A transfer is made from the bound book inventory to cost of sales.

Cost of books sold consists of:

- A. Direct production cost, as explained above.
- B. Inventory adjustments (see comments, below).
- C. Royalties on books sold (see comments, below).
- D. Plant expense or amortization (see comments, below).

Some publishers set up the classifications, as follows:

- A. Plates and composition (also known as plant expense).
- B. Paper, printing and binding.
- C. Inventory adjustments.
- D. Royalties on books sold.

Plant Expense

Plant expense (cost) represents those expenditures incurred between the approval of the manuscript and completion of plates ready for the printer. The term plant expense is given a special meaning in the book publishing industry. It includes all the expenditures necessary actually to produce the physical electrotypes, plates, offset plates, or the standing type from which the printed matter is to be produced. Plant expense also includes copyright fees, translation fees, art work, photography, cuts, dies, engraving, and other charges incidental to plant.

Disposition of Plant Expense

There are various methods of charging off plant expense:

- A. Charge it all off on a monthly basis.

- B. Accumulate the plant cost of each title and charge off the total expense in the month of publication.
- C. Amortize the plant cost of each title, beginning with the month of publication, using recognized formulas for fiction, non-fiction, textbooks, etc.
- D. Amortize the plant cost over the first edition on the basis of sales.

Some publishers inventory the metallic value of each plate at the end of the fiscal year, and reduce the plant expense for the current period. When plates are melted, the proceeds are credited to plant expense, or to the metallic value inventory account, as the case may be.

Plant expense is a normal charge to cost of sales, rather than to production cost, and is shown separately on the operating statement as Plant Expense or Amortization.

Although plant cost is charged off currently, an inventory is kept of the plates by title. It is a trade custom to store the plates with the manufacturers and printers. Plates are inventoried annually at the various locations, and verified with the publisher's records.

Book Manufacturing Plants

Most book publishers do not maintain their own manufacturing plants. The principal reasons are:

- A. The book publishers can purchase more economically under a contractual arrangement with the independent book manufacturers.
- B. No plant investment.
- C. No management expense.
- D. No expense when plant is not fully occupied.
- E. Reduction of general administrative expenses.
- F. Since there is no plant investment, the fixed assets are less, leaving more working capital for book publishing.

Inventories

Book publishers with good accounting systems maintain perpetual inventory records for:

- A. (White) Paper.
- B. Cloth.
- C. Printed sheets.
- D. Bound books.

For balance sheet purposes they are listed as follows:

- A. Bound books.
- B. Printed sheets.
- C. Paper.
- D. Cloth.
- E. Work-in-process.

The printed sheet inventory covers the cost of paper and presswork. The bound book inventory includes the aggregate costs of paper, presswork and binding. Cloth is included in the binding operation. Work-in-process is shown separately. Some publishers include work-in-process in printed sheet inventory. Books shipped on consignment are shown separately, and also included in the bound book inventory. Where more than one type of book is published, separate inventories are maintained for each class. To keep accurate inventory records there must be close cooperation between the production and accounting departments. The inventory records disclose the quantity of printed sheets and bound books, as well as work-in-process on hand at the various plants and warehouses, etc.

The manufacturers submit an inventory report annually, or at such times as agreed upon, of the quantity of printed sheets and bound books on hand at the end of the publisher's fiscal year. The accounting, or confirmations as they are generally known, are prepared from the manufacturer's perpetual records. Some manufacturers make test checks.

Paper and cloth supplied by the book publishers to the various printers and manufacturers for current use and for future publications are accounted for at the end of the fiscal year.

Accounting Procedures in the Book Publishing Industry

Inventory reports received from the printers and manufacturers are checked against the publisher's records. Very little difficulty is experienced in the verification of paper and cloth. The problem arises with respect to bound books. Differences occur frequently and the publishers are required to ask the manufacturers for recounts. The differences may be due to miscounts, books in transit and to over-runs or under-runs, which are not disclosed until the inventories are verified.

Over-runs and under-runs are due to (1) difference in quantity of paper delivered to the manufacturer, and (2) spoilage in printing and binding. Although the production department allocates sufficient paper for the specific printings, the actual quantity may be over or short. The spoilage in printing and binding varies.

Where there is a difference due to over-runs or under-runs, an adjustment is made. If there is an overage, the publisher is charged with additional binding charges. If there is a shortage, the publisher receives a credit for binding charges. There is no adjustment made for presswork except in case of large differences.

When all the confirmations are verified and/or adjusted, the extensions are made, using the publisher's unit cost as of the end of the fiscal year.

Where inventories are excessive, the values are written down to a realistic figure. This is good accounting practice, and the valuation should normally be conservative. The publishers should be in a position to arrive at a bona fide market value.

Royalties on Books Sold

Royalties are accrued (1) on a monthly basis, and (2) on a six-months basis. Agreements with authors provide that royalty reports be rendered semi-annually. Whichever method of accrual is followed, the total royalties

are reflected at the end of the accounting period. The principle of payment of royalties to authors seems to be firmly established and is undoubtedly the most equitable to all concerned.

The method of buying a manuscript outright seems to have been generally discarded, although it is sometimes done in case of foreign authors. Lump-sum payments for outright purchase of manuscripts may be charged off as follows:

- (1) entire amount to royalty expense, or
- (2) amortized over an estimated life of the publication.

Advance Payments to Authors

It is the practice of book publishers to make advance payments to authors against future royalty earnings; this is made a part of the agreement with the author.

Advance payments are charged to an account called Advances on Unpublished Books, and shown on the balance sheet as a non-current asset. Advance payments reduce the current assets and the net working capital. Under a group insurance plan, advances may be insured until the manuscript is received by the publisher and ready for the printer.

On the publication date, advance payments are transferred to the author's royalty accounts and applied against the accrued royalties on books sold.

Where the accrued royalties exceed the advance payments, the excess represents royalty payable. Where the advance payments exceed the accrued royalties, the excess represents advances on published books, and shown on the balance sheet as a non-current asset. Advances on published books are also known as unearned royalties. The latter means that the accrued royalties on books sold were insufficient to absorb the advance payments at the end of the author's accounting period.

Author's Royalty Report

A royalty control account is maintained in the general records of the publisher. An analysis is made at the end of the author's accounting periods, and at the end of the publisher's fiscal year for balance sheet purposes. The analysis will disclose titles that have royalty earnings, and titles where the royalties have not exceeded the advance payments. The earned and unearned royalties reflected on the author's accounts should agree with the control account.

Royalties on regular sales are calculated on a sliding scale, based on quantity of books sold. Special rates apply on different types of sales. The author is credited with a proportion of income from subsidiary rights. The author is charged with alteration charges where the corrections on the manuscript are excessive; this is an editorial charge for correcting and/or revising a manuscript, or where the author made corrections after the manuscript was set in type. In preparing the royalty reports the earnings as well as the charges are taken into consideration. In view of the amount of work involved, the accounting department must exercise great care in the preparation of the royalty reports. The reports are carefully examined by the management before they are released to the authors.

Unrecovered Advances to Authors on Published Books

Where the accrued royalties on books sold do not exceed the advance payments to authors, and there is no likelihood that the balance of the advances will be recovered, they are considered worthless.

For accounting as well as for income tax purposes, the unrecovered advances may be treated as follows:

1. Charge off directly.
2. Charge to Reserve for Unrecovered Advances to Authors.

3. Charge to Advances Written Off; this is shown as a separate item under royalty expense.

In connection with the reserve method, a provision may be made for "unrecovered advances to authors and doubtful accounts receivable."

Special Cash Account for Accrued Royalties Payable

There is generally no provision in the author's agreement that the accrued royalties be kept in a special cash account. Publishers who do not maintain separate cash accounts for accrued royalties, include the amounts due authors in their budgets in the month of settlement. Banks recognize this as a customary business procedure in the book publishing industry.

Inventory Adjustments

Inventory write-offs include all sums charged against the year's operation by reason of unsaleable books and overstock, etc. There is no formula for determining the percentage of inventory to be written off in the book publishing industry. The most commonly used valuation for all inventories is their cost or market value, whichever is lower. If the books are to be "remaindered,"* the inventory cost should be brought down to the remainder value, if below cost. If the books have no remainder value, they should be written down to zero. Very often books that have been written down, show sales possibilities in subsequent years, in which event the profit realized is reflected in the year of sale.

Deferred Binding Charges

The book publisher makes payment to the manufacturer for composition (typesetting), plate making, and presswork upon completion. The payment for binding, however, is made on different terms.

* When books are "remaindered", they are sold at a price much less than the regular trade edition price, based upon the quantity involved and the resale possibilities.

Accounting Procedures in the Book Publishing Industry

The most usual method, a custom developed among book manufacturers, is to hold the completed books in their warehouse for the account of the publisher, and to defer the billing for binding until such time as the books are delivered to the publisher. However, if at the expiration of a stated period, the books are still in the manufacturer's warehouse, a bill will then be rendered for the unpaid binding charges.

An accounting problem arises when a bill has not been rendered by the manufacturer for the unpaid charges at the end of the publisher's accounting period. To adjust properly the bound book inventory on the records of the publisher, and reflect a liability to the manufacturer for the amount due, an account is set up entitled *Deferred Binding Charges*; the inventory is charged with the additional binding charges and the manufacturer is credited. *Deferred Binding Charges* are included in the current liabilities of the publisher.

Title Accounting and the Break-Even Point

The quantity of books of each title printed, as a general rule, is based upon sales expectancy. Many book publishers maintain an individual record for each title. Some publishers keep individual records for selected titles.

The title accounting record is designed so that management may ascertain at any particular date the amount by which the total income exceeds or fails to reach the direct costs. Direct costs normally consist of paper, printing, binding, plant, royalty on books sold or advance payment to author, whichever is greater. It also includes advertising and promotion, and such other expenses as may be allocated to

the respective titles with reasonable accuracy. The record resolves itself into an accumulation of direct charges and income applicable to the specific title for a particular period. There is no limitation as to how far the projection of the profit and loss figure may go. Income from subsidiary rights is also taken into consideration in title accounting reports.

Title accounting discloses the break-even point: the point in dollars of sales volume at which neither loss nor gain is made. Despite the variability of the break-even point, its ascertainment yields information useful to the editorial and production departments for guidance in making important decisions.

Title accounting reports are usually prepared in the following manner:

- A. Quantity of books sold and sales proceeds.
- B. Total plant costs.
- C. Total paper, printing, and binding.
- D. Royalty on books sold, or advance payment to author, whichever is greater.
- E. Gross profit on sales.
- F. Expenses chargeable directly to the title.
- G. Income from subsidiary rights.

* * *

The accounting problems and procedures outlined above have been accepted by most accountants specializing in the graphic arts industries. There are some variations in classifications, but not enough to prevent uniformity of accounts in the book publishing industry. Suggestions have also been made from time to time by the American Book Publishers Council, Inc., for the purpose of setting up a uniform cost accounting system.



Some Accounting Problems of Smaller Newspapers and Similar Publications

By HERBERT H. SCHUELLER, C.P.A.

This paper will attempt to discuss a few of the many accounting problems which confront the newspaper industry. Primary attention will be given to those of the smaller and medium-sized enterprises in the newspaper field which desire small accounting departments and their records kept as simply as possible. Large newspapers, in need of elaborate and accurate statistical information, often use detailed cost systems and employ mechanized bookkeeping equipment. Their problems, as far as they differ from those of the smaller papers, will not be considered herein.

NEWSPAPERS may be defined as public prints, usually on a low quality paper, which are issued for general circulation at frequent or regular intervals and which publish news, advertisements, and other matters of general interest. The principles hereafter discussed also apply, however, not only to newspapers in the strict sense of the term, but also to foreign language papers and to the many trade, professional, union, company and other publications which accept advertisements and follow closely, in production as well as in distribution methods, the general techniques used by the newspaper industry.

HERBERT H. SCHUELLER, C.P.A., is a member of our Society and its Committee on Graphic Arts and Allied Industries Accounting. He is also a member of the American Institute of Accountants and of the New York Chapter of the National Association of Cost Accountants.

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This paper was presented by Mr. Schueller at a technical meeting of the Society held at the Engineering Societies' Building last year, under the auspices of the Committee on Graphic Arts and Allied Industries Accounting.

In this connection it should be noted that no uniform rules for newspaper accounting have yet been established. Therefore, the accounting systems used by the different newspaper publishers vary considerably. However, the need for a more uniform procedure is strongly and widely felt among the members of the industry and, as a first step toward that goal, the Institute of Newspaper Controllers and Finance Officers (hereafter called the Newspaper Institute) adopted in September, 1951, a uniform chart of accounts for newspaper publishing companies. It can be expected that many newspapers will soon conform their account charts to the suggestions made by the Institute and frequent references to it are therefore included in this article.

Sources of Operating Revenue

Newspaper operating revenue generally stems from the following three main sources:

- (1) *Circulation income*, derived from the sale of newspapers;
- (2) *Advertising income*, resulting from the sale of space in the newspaper; and
- (3) *Other operating revenue* which may be derived from sale of waste paper and waste metal, from royalties on featured articles, from correspondence services rendered,

from cash discounts earned, and from other similar sources connected with the operation of the paper.

Circulation and advertising income are often called main or principal newspaper income, as distinguished from the other operating income, which is called additional or secondary newspaper income.

Newspapers which have printing plants with a capacity in excess of their own needs, sometimes go into the job printing business by printing newspapers for other publishers or by accepting other suitable printing orders. The account chart of the Newspaper Institute includes such job printing income in Other Operating Revenue. The accounting problems connected with this income, however, are the same as those related to the job printing industry and, therefore, no further reference is made to them in this discussion.

Circulation Revenue

Circulation revenue is commonly subdivided into

Income from subscriptions,

Income from carriers and news-dealers, and

Miscellaneous circulation income.

The Newspaper Institute suggests that circulation revenue should be broken down further into at least the following seven classes: (1) Carriers, (2) Counter, (3) Dealers and Agents, (4) Mail Subscriptions, (5) Newsstands, (6) Street and (7) Others.

Every newspaper should keep a clear and accurate record of all open subscriptions. This record should include the full name and address of each subscriber, the period for which he subscribed, the period for which payment has been received, and the manner in which the subscription was acquired. A card file which permits sub-grouping and facilitates renewal control seems an excellent method for keeping this record.

Subscriptions are usually paid in advance for definite periods, which may range from a few weeks to several years. As many of the payments so received will be for periods extending beyond the accounting period of the newspaper, subscription payments should not be credited directly to income but to a deferred income account called Unearned Income from Subscriptions. From this account periodic transfers have to be made to Income from Subscriptions for that portion of the deferred subscription income which has been earned during the accounting period. In order to simplify computations, some newspapers disregard actual dates and treat all subscriptions received during any month as starting on the 15th day of that month.

The Bureau of Internal Revenue, which, as a general rule, prohibits the deferment of advance income for Federal income tax purposes, makes an exception regarding such prepaid subscriptions and permits allocation over the subscription period, provided the taxpayer has consistently followed this method over a period of years. (I.T. 3369; 1940-1 I.R.B. 46.) However, in a very recent decision (*Booth Newspapers, Inc.*, 17 TC-No. 32, promulgated on September 17, 1951) the Tax Court denied the deferment to a cash basis taxpayer and pointed out that the above-cited ruling referred only to taxpayers using the accrual method of accounting.

In order to increase their value as advertising media, some publications continue delivery of their copies to former subscribers even after the paid subscription period has expired. Where this custom is met, special care in determining subscription income is required. Addressees of such voluntary deliveries must be excluded from the record of regular subscribers and the cost incurred in connection with them should be charged to an appropriate expense account.

The main difficulty with circulation income derived from dealers, agents, newsstands and street vendors, arises from the fact that a great number of publishers encourage those sellers to order more papers than they can usually sell and allow a credit for all unsold copies. Many enterprises have the unsold papers picked up and sell them as waste. In some instances, however, the vendor is required only to return a certain part of each unsold copy and these clippings furnish the basis for computing the credit.

These returns are often a source of shortages and embezzlements. For this reason it is necessary to establish a rather strict control over deliveries and returns. The need for such control is especially apparent in the quite frequent situation where the delivery, the pickup, and the money collection are all performed by the same person, usually the driver of the delivery truck. Special records showing the number of copies furnished, both to each driver and to each vendor, the number of return copies or clippings received each day, and the amount of money collected, should be kept by the bookkeeping department to determine whether all deliveries are accounted for either by collections or by returns. In addition, the returns should be checked and counted by the circulation department as to identity and number. Credit notices should always originate in the bookkeeping, and not in the shipping or delivery, department.

In a large number of smaller communities, newspaper publishers sell most of their copies through carriers, usually teen-age school boys, who deliver the papers during the week and make collections at the end of the week.

Formerly, as a rule, newsboys did not buy outright the papers they delivered, but received a fixed portion of the price of the sold papers as compensation. As security for the copies entrusted to them, the carriers left with their employer a cash deposit,

measured, usually, by the average weekly take of their paper route. Such deposits were held by the employer in fiduciary capacity and required careful accounting.

Due to past changes and uncertainties in the Social Security Law many publishers have abandoned the system just described and have made the newsboys independent contractors by having them buy the newspapers and resell them for their own account. (The Newsvendor Act of 1948 now clearly exempts such newsboys from the provisions of the Social Security Act.)

Where delivery is made by mail, a procedure generally restricted to out-of-town customers, the U. S. Postmasters require an advance deposit for the postage. Where these periodical prepayments are rather uniform in amount they are often charged directly to expense account and the respective balance sheet account is carried at a fixed nominal amount.

A final word may be said before leaving the subject of Circulation. Every newspaper publisher should keep his books in such a manner that paid circulation can be determined at any time, both as to dollar amounts and as to number of copies. If the newspaper is a member of the Audit Bureau of Circulation, the Bureau will usually insist that this be done. But even non-members should have these figures available at all times, as this information is not only necessary for intelligent managing of the newspaper but is also indispensable for the advertising sales department.

Advertising Revenue

Advertising Revenue is commonly subdivided into

Local or retail display, which includes display advertising locally obtained by the newspaper;

National or general display, which usually comes to the newspaper through advertising agencies;

Classified advertising, consisting of

small ads to be printed in the classified columns, and

Legal advertising.

The Newspaper Institute suggests that the terms "local" and "national" be dropped and the two respective accounts be called simply Retail Advertising Revenue and General Advertising Revenue. It further recommends dividing classified advertising into Classified-Contract for recording income from those classified advertisers who make long-term contracts for such classified advertisements, and Classified-Other for income from occasional or so-called "transient" advertisers.

Display advertising is the largest single source of income for most newspapers. It is commonly sold by column inches, while classified and legal advertisements are usually sold by column lines.

Newspapers often demand different rates for advertisements depending upon the page or section of the paper in which the customer wishes the ad to appear. In this case both good accounting and efficient internal control suggest a subdivision of such advertising revenue into proper sub-accounts such as Society Page Display, Entertainment Page Display, Sport Page Display, and so forth.

Contract Rates and Agency Discounts

Newspapers quite commonly enter into contracts with substantial regular advertisers like supermarkets, drug stores, automobile agencies, etc., which stipulate that the price of the column inch shall be determined by an escalator clause based upon the total amount of space bought by the contract advertiser during a certain period of time. This period may be several months, a year, or even longer. Thus the price for all advertisements placed by the contract advertiser under the contract can only be determined at the end of the contract period. During the period the newspaper bills these contract ads and receives payments for them only on a

temporary basis. The practice of invoicing this kind of contract advertising varies considerably with different newspaper publishers. Some charge their customers at their regular rates and issue credits at the end of the contract period for the rebate; others bill at minimum rates and make additional charges at the end of the period, where such are appropriate. Still others charge an experience rate, which may be subject to changes during the period and is finally adjusted at the end of the period.

The accounting for this kind of income involves certain problems. In order to determine the income from contract advertising for any accounting period which terminates prior to the contract period, proper adjustments must be made to advertising revenue for any future changes in the already invoiced prices which can be foreseen or are highly probable at the end of the accounting period. A reduction adjustment may be made by reserving an estimated amount representing Contract Rebates. Such a reserve, of course, cannot be deducted in determining the Federal income tax liability.

For advertisements obtained through advertising agencies, proper provision must be made for the agency commission. Here too, the practice of the different newspapers differs. Some prefer to credit the income account with the gross price of the advertisement and to charge the agency commission to expense. Others disregard the agency commission entirely and include only the net billing, after deducting the commission, in income. The uniform chart of the Newspaper Institute does not eliminate that choice but it provides that gross advertising revenue and not one of the expense accounts shall be charged with agency discounts.

Classified Ads

As mentioned before, classified advertisements may be sold to frequent or regular advertisers, such as employ-

ment agencies, real estate brokers, etc. The accounting problems encountered with them are similar to those met with in display advertising. The bulk of the classified or small ads, however, such as rent ads, employment ads, lost and found ads, etc., come from occasional advertisers. These ads are called "transients" in newspaper language and they often create considerable problems for the newspaper accountant.

One of the reasons for these difficulties can be found in the so-called "short-rate". It is the practice of many newspapers to charge a relatively lower (long-run) rate for transients bought for several continuous insertions than for those bought for a single insertion (short-run rate). If, as it happens quite frequently, the long-run ad accomplishes its purpose after only one insertion or after several insertions, the number of which, however, is less than originally contemplated, then the transient advertiser is allowed to cancel the further run. In this case he has only to pay the short-rate multiplied by the number of insertions which, although relatively higher than the long-run rate, may still result in a lower total cost. Whenever newspapers demand that transient ads must be paid in advance, the change from long-run to short-rate will result in refunds which, although usually small in amount, are cumbersome because of their large number.

A similar problem arises where transient advertisements are sold on open account and are billed only after their appearance. Here the change from long-run to short-rate is relatively simple. However, as the total number of transients is normally large and the average amount of each item small, keeping account of the receivables is a rather difficult and expensive task. For this reason some newspapers find it economical to use a special procedure in dealing with transient receivables. Shortly after the ad appears in the paper or, if it is bought for several insertions, shortly after the last insertion,

the invoice is mailed with a request for prompt payment. If the account is not settled promptly several statements are sent out at short intervals repeating the demand for payment. If they are unsuccessful the account is immediately transferred from the ordinary accounts receivables to a "black-file" and the unpaid amount is charged off as bad without further delay. After this has been done the "black" accounts are often turned over to an outside collection agency. Amounts subsequently recovered must, of course, be included in income. Later advertisements from defaulted advertisers are accepted only after the prior bill has been paid.

Legal Ads

Legal advertisements may be in the form of display or classified advertisements. As the same ad must usually be published several times in order to have legal effect, the fee for it usually covers several insertions. This fact will necessitate allocating that portion of legal advertising revenue which extends over two accounting periods.

Other Newspaper Operating Revenue

The other newspaper operating revenue may be derived from numerous sources and sometimes may not be repetitive. In order to record such income properly, the Newspaper Institute recommends that it be classified in conformity with the departmental expense analysis mentioned later in this paper. According to this advice, income from sale of news reprints, photographs and booklets would be credited to Other Operating Revenue—Editorial, income from job printing and from sale of waste metal to Other Operating Revenue—Mechanical, income from sale of waste paper to Other Operating Revenue—Newsprint, and so forth. If necessary or desired such accounts can be further subdivided.

Other Operating Income should always be carried to an income account and never be credited to an expense

Some Accounting Problems of Smaller Newspapers and Similar Publications

account as an off-set, although such off-setting is sometimes later done on the financial statements.

A word of caution may be added in connection with Other Newspaper Operating Revenue. Compared with circulation and advertising revenue, this class of income may seem immaterial. However, if properly handled and controlled it often reaches surprisingly large figures. On the other hand, where no special attention is given to it, this class of income shows a strong tendency to go into pockets other than those of the newspaper publishing company. This is particularly true in the case of income from waste paper and waste metal.

Expense Grouping

In accounting for newspapers, as in many other manufacturing processes, expenses are customarily charged first to primary expense accounts, as for instance:

Auto Expenses, Commissions, Contributions, Depreciation, Electric Power, Insurance, Maintenance, Payroll, Postage, Publicity, Rentals, Supplies, Taxes, Travel, Water, etc.

These primary expenses are then distributed to departmental expense accounts which, according to the Newspaper Institute, should be summarized in the following over-all groups:

Editorial
Mechanical
Newsprint, Ink and Supplements
Distribution and Circulation
Advertising
General, Administrative, and Service

Departmental Expenses

Editorial expenses, which may be divided into Editorial and News, and Photo and Art, comprise the costs of gathering the news and news pictures and of writing the non-advertising part

of the newspaper. They include, among other items, news services; the payroll of editors, reporters, correspondents, and rewriters; travel expenses; etc.

The *Mechanical expenses* which consist of the cost of the mechanical production of the newspaper may include the following departments:

- (1) *Composition*, including the cost of setting the newspaper into type, such as linotyping, outlaying, handsetting, etc.
- (2) *Engraving*, i.e., the cost of the blocks or cuts required for reproducing photos and illustrations. Small newspapers usually have this job done by outside firms.
- (3) *Stereotyping*, which comprises the cost of converting the composed pages into mats and metallic cylinders from which the actual printing is done.
- (4) *Presses - Black and Color*, including all actual printing costs.

Newsprint, Ink and Purchased Supplies are classified as a special department for cost analysis purposes.

The Distribution and Circulation Expenses fall into Mail Room Expenses, Trucking and Delivery Expenses and Other Circulation Cost.

Advertising Department Expenses consist of selling, writing and designing advertisements, including photos, artwork and related expenses. They do not, however, include advertising for the newspaper itself, an expense which falls within the Promotion Expenses in the General Administrative and Service departmental group. These expenses may be grouped according to the principal classification of advertising income, i. e., retail, general, classified and legal advertising expenses.

The *General, Administrative and Service* departmental group includes the expenses ordinarily included in this classification and seems to require no comment.

Depending upon the size of the busi-

ness and on the accounting system in use, the foregoing cost classifications are often further subdivided.

It is not within the scope of this article to explain in detail on what basis the primary cost accounts should be distributed to the departments or major cost grouping. It is understood that the Newspaper Institute is preparing a chart showing such distribution.

Assets and Liabilities

The chart of asset and liability accounts for newspaper publishing companies is similar to the charts of other manufacturing companies and does not involve many special problems.

Special features of some of the balance sheet accounts such as Receivables, Deposits with U. S. Postmasters, Deferred Income from Subscriptions and Others, have been discussed before. Space limitations permit mention of only a few of the other accounts.

Inventories

The inventory is usually subdivided into three classes - Newsprint, Inks and Supplies. Because work-in-process is generally not a material item, it is not customary to take inventory of it. In valuing the newsprint on hand, the returnable cores for which credit from the paper supplier will be received, must be taken into account. Due consideration must also be given to the fact that most printing presses cannot use the end run of each paper roll, which, therefore, constitutes waste.

Where the enterprise does job printing for other newspapers or where it has its own paper printed by an outside printer, newsprint often gets intermingled with stock belonging to other parties and, at inventory time, it will be necessary to determine and to value the interest of each party in the newsprint on hand.

Raw metal used in the linotyping and stereotyping process is included by some in the inventory of materials and supplies. Others, for the reason that this metal is not expended but

only deteriorates in the manufacturing process, take the apparently sounder position that it is a part of the fixed assets.

Cuts

Used engravings or cuts, stored in the picture "morgue" for a possible later reuse, are sometimes included among the fixed assets at their cost value. Such practice should not be tolerated because the future value of these cuts, if there is any at all, seems very uncertain. Therefore, the cost of such cuts and engravings should be charged completely to expense, except for a small nominal value at which they may be represented on the balance sheet.

Fixed Intangibles

In the newspaper publishing business, intangible fixed assets appear frequently and often constitute material items. They may be classified into different groups.

There are the memberships in organizations such as the Audit Bureau of Circulation, the different news services (United Press, Associated Press, etc.) and contracts with feature syndicates (columnists or cartoonists). Copyrights owned on which royalties may be received and license contracts on which royalties to other copyright owners must be paid, may also be included in this group.

Another class of intangible assets is the different lists or files often kept by newspapers of actual or prospective advertisers, of possible subscribers, of people enrolled in the different political parties and similar records. These lists are sometimes prepared by the newspaper's own staff, but more frequently are purchased from outside agencies, often at quite a considerable expense.

An important intangible asset of many newspapers is the "morgue", i. e., an indexed file record containing information on personalities, history, events, science, etc., and pictures on

Some Accounting Problems of Smaller Newspapers and Similar Publications

these subjects. The morgue increases in value with each additional year it has been maintained and is a precious source of reference for future news, editorial, and also advertising copy writing. Usually, except in the case where the newspaper employs a staff of researchers, no cost is allocated to the morgue in spite of its great value. The morgue is considered a by-product of the direct activities of the newspapers and they are charged with the full cost. Sometimes, however, such morgues are acquired from other newspapers going out of business or being merged with other papers having their own morgue. In this case morgues may have a considerable cost value.

Not infrequently the intangible assets include purchased goodwill and non-competing covenants received from other persons or other companies upon the purchase of, or the merger with, other newspaper enterprises.

All these intangible asset accounts must be carefully watched as to their present value and, where necessary,

should be amortized or written down in accordance with sound accounting principles. Such adjustments should be made regardless of whether or not the amortization or the write-off is permitted as a reduction for tax purposes.

Conclusion

This paper does not make any references to the special procedures used in auditing for newspaper publishers. Persons interested in this subject are referred to Number 2 of the Case Studies in Auditing Procedure published by the American Institute of Accountants, which deals with the auditing procedure for a newspaper publisher.

No attempt has been made to present herein a complete picture of newspaper accounting. The purpose of this paper was to indicate some of the special features which are either peculiar to accounting for newspapers or are at least different from ordinary accounting procedures.



AN ADIRONDACK VIEW

In the Spring folks' thoughts sometimes turn to other things than love; and young men have no monopoly on fancies.

A lot of us live in small places—in Jersey, Long Island, Westchester, Altamont, Fayetteville, Henrietta, North Tonawanda (and all way stations!). Every spring, up jumps some community argument. A heated spring election. The Mayor wants to fire the clerk. The raises voted should be put to a referendum. The Mayor should resign. Business is terrible.

But the worst one of all is—what a wonderful place Florida has become—why can't we be like that? Perhaps there is an optical illusion to the greenness of the grass in the other business pastures. Perhaps it's just some of the fancy thinking that comes to men in the Spring.

So among your clients and accounting personnel you probably have some of these quickie spring ideas. Do you know how to handle these situations? Tell the person involved to get out, go fishing, go to see his grandfather, go somewhere—but be polite in the place named!

That reminds me, the boss in my office thinks the country will surely go to the dogs unless a certain person gets nominated and elected to a certain office. Spring has got him too! So it's a week for him in the hills of Vermont—he leaves next Monday, rain or shine, clients or no clients, work or no work—HE GOES.

LEONARD HOUGHTON
Adirondack "Chapter."

Amelioration of Hospital Administrative Burden Via a Payroll Code Control

By JULIAN S. H. WEINER, C.P.A.

An alpha-numerical code may be a potent instrument of management in the field of payroll budgets and controls. This paper offers a practical method for the installation of such a device. Although the system discussed herein is designed specifically for hospitals, it would prove equally effective in commercial and industrial organizations.

A PROBLEM that has perpetually plagued hospital management is that of establishing adequate payroll controls. Considering that salaries and wages constitute the major portion of operating expense, effective supervision of this cost is desirable.

It is manifest that the merit of a system prescribed for this purpose should be measured by its capacity to expedite related administrative functions. Therefore, it would be pertinent at this point to consider the obstacles encountered most frequently in this area of executive responsibility. Thus, we shall ascertain, simultaneously, the basic ingredients essential to the successful operation of any recommended plan of control.

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Mr. Weiner was graduated from The City College (N. Y.) School of Business and Civic Administration with the degree of B.B.A., and from St. John's University with the degree of LL.B. He is a member of Beta Gamma Sigma.

He has written previously for *The New York Certified Public Accountant* and *The Journal of Accountancy*.

Forecast of Salary and Wage Expense

The technique of budgeting has been gaining widespread recognition as a potent instrument of management. However, in consequence of its comparatively recent acceptance, there are numerous problems still to be overcome in connection with its preparation. For this purpose, since we are concerned only with labor costs, the subsequent comments will be confined accordingly.

In order to project this element of expense, it is the general practice to employ the most recent pay periods and employees' earnings records as a guide in the determination of the number of personnel required in the ensuing year. However, in conjunction with this source of reference, consideration must be given to the abnormal rate of personnel turnover experienced by most hospitals. As a result of this factor, the average payroll will usually include the salaries of both the new and terminated employees. Consequently, the status of each worker must be ascertained so as to avoid duplication in the establishment of the pertinent budget figures. Conversely, additional precautionary measures must be observed so that the omission of various positions from the particular payroll will be detected. For example, if employee vacancies existed in the month chosen as the base for the determination of the relevant estimates, no remuneration therefor would be included in the said pay period. Hence, provided further analyses were not per-

Hospital Payroll Control

formed, the salary and wage approximations would be understated accordingly.

The foregoing illustrations are not all-inclusive but merely representative of the disadvantages stemming from the use of previous compensation records for the development of budgetary data. As indicated, it would be necessary to scrutinize carefully the payrolls selected so as to assure the reliability of the information extracted therefrom. Obviously, such an examination would be time-consuming and undesirable. Hence, the prevailing practice of forecasting this element of expense, as explained above, is inadequate. This condition emphasizes the importance of devising a more practical process for the prediction of service and labor costs. Such a process would constitute one of the basic ingredients, referred to at the outset, which would be essential to the establishment of an effective system of internal control.

Before recommending specific procedures to attain the stated objective, it would be expedient to consider additional payroll problems confronting management.

Consequences of

Personnel Turnover

The unfavorable influence of excessive employee replacements is not confined merely to the area of budgeting. The severity of its impact is reflected more substantially in other respects. For instance, an additional financial burden may be imposed upon the hospital in the form of duplicate salary payments. This situation arises where the replaced employee is retained temporarily to expedite the orientation of his successor. It is also noteworthy that during the initial stage of his employment, the new worker, in the main, will not achieve the degree of efficiency maintained by his predecessor.

A further hazard which cannot be ignored is that of impairing public relations. To illustrate, assume there has been considerable turnover in the posi-

tion embracing the task of pricing patients' charges. Under such circumstances, it is to be expected that errors may occur at the hands of new, inexperienced personnel. If these mistakes should be material, as well as numerous, it is inevitable that the patients affected thereby will be antagonized. Naturally, such a situation would not enhance the fund-raising program of a hospital.

The foregoing examples amply attest to the prohibitive aspects of abnormal staff replacements. However, it is conceded that in consequence of the diversity and scope of hospital services, personnel turnover, to a reasonable degree is unavoidable. Nevertheless, for the reasons indicated in the foregoing comments, it is essential that this condition be minimized. In furtherance of this objective, it would be necessary to determine the various positions which are subject to an excessive rate of turnover. Generally, this process would entail an analysis of each employee's earnings record or every payroll prepared during the year. Obviously, that procedure would be very time-consuming. Hence, the adequacy of a system of internal control should also be judged by its capacity to expedite the detection of frequent employee terminations.

Validity of Salary and

Wage Disbursements

Another major problem confronting the administrator or comptroller or whomever else signs the payroll checks is the method of ascertaining whether every check represents a bona fide payment for services rendered to the hospital. It is conceded that the size of the average hospital staff precludes the verification of each check. However, even where the process of sampling or testing is deemed adequate, a considerable amount of time will be expended thereon if reference must be made to the earnings record of each employee whose check is examined.

Another factor to be considered is the prevailing practice of delegating the preparation and distribution of checks to the same employee. Occasionally, the latter responsibility may also be assigned to the respective department heads. Naturally, the concentration of both procedures in one individual will substantially nullify any internal safeguards established for the payroll. Under such circumstances, some form of an examination by the comptroller or administrator, prior to the signing of salary checks, would be desirable. Therefore, last, but certainly far from least of the ingredients which should be contained in a good system of control, would be a process which would facilitate the detection of payroll fraud.

Recommended Plan

Now that we have determined some of the salient features of an effective payroll control, it would be appropriate to examine a system designed to satisfy the stated requirements.

Under the proposed code, each department would be designated by its first letter and the various positions therein would be represented by numbers assigned in sequence. For instance, the head of the Nursing Division would be N 1, her assistant N 2 and so forth. A change of personnel in any position should be indicated by the use of decimals. For example, if during the year the original nursing supervisor had been replaced, the code description of all her successors would be N 1.1, N 1.2, and so on.

Where more than one department commences with the same letter, the said departments may be distinguished by using the first two letters. For example, the Administrative Division would be identified as AD, whereas the accounting department would be denoted by the abbreviation AC. The chart of accounts recommended by the American Hospital Association provides a comprehensive departmental classification for this purpose. However, if any hospital reports to a central agency requiring different account ter-

minology, of course such designations should be used instead.

A separate 3 x 5 card should be provided for every position. The face of each card should contain the assigned alpha-numerical code, the rate and range of compensation, nature of the position, and a brief description of the related duties. The back of the card should be utilized for the recording of the various names of the individuals employed for the specific position. This card file should be maintained currently so as to reflect any changes in staff requirements.

The sequence of the departmental classifications and related positions appearing in each payroll should conform to that of the card file described above. In addition, the appropriate code identification should be transcribed next to the name of the relevant employee.

Obviously, the most time-consuming feature of the proposed plan is the initial establishment of the various positions and related duties. This obstacle may be easily overcome by distributing the burden to many employees rather than by imposing it upon a single individual. Towards this end, it is suggested that all personnel be requested to describe their daily activities upon a standard form, about 11" x 8", designed for this purpose. A suggested layout of such a form appears below:

DEPARTMENT

Name of Worker Rate of Compensation

1. *General description of employee's responsibilities* (About $\frac{1}{4}$ of a page should be allotted for this section.)
2. *Outline sequence in which duties are performed daily and approximate time devoted to each task* (About $\frac{1}{2}$ of a page should be reserved for this section.)
This information should be made mandatory wherever the nature of a position permits such a segregation of activities.
3. *Employee Suggestions*
(Employees should be urged to comment upon their jobs and of-

Hospital Payroll Control

fer constructive recommendations.)

The analyses appearing on these forms should provide the department heads with adequate information for the creation of well-defined positions within their divisions. The resultant data should be submitted to the executive staff for review and eventual transcription upon the position cards. Each departmental supervisor should receive copies of the position cards which relate to his or her unit.

The benefits to be derived from the implementation of the foregoing system may best be reviewed by referring to the "essential ingredients" discussed previously.

Forecast of Salary and Wage Expense

The card index of each position should substantially accelerate the preparation of the payroll budget. This procedure would be converted to a mere transcription of the information appearing on these cards. Hence, this task may be assigned to lesser employees, thus relieving the executive personnel of a very time-consuming process.

Determination of Extent of Personnel Turnover

The use of decimals to identify employee replacements will avoid the analytical process usually required to extract such information. The degree of personnel changes for any position could readily be determined by reference to the code designation appearing on the related position card. This time-saving feature will expedite the control of this condition and, hence, minimize the accompanying costs, which were discussed under this related section previously.

Detection of Payroll Fraud

The assignment of a numeral for each job would represent an effective safeguard against unauthorized additions to the payroll. The number of

employees listed in a department should never exceed the positions assigned to that department. Where both the terminated and replacement employees appear in the same pay period, their relationship will be indicated by the decimal digits assigned to each. For example, if both the initial nursing supervisor and her successor are listed in one payroll, their code designations would be N 1 and N 1.1 respectively. Hence, reference to the card file, which reflects the preceding factors, will simplify the test verification of the payroll prior to the signing of the employees' checks.

In addition to the foregoing, there are other substantial benefits which may be derived from the installation of the recommended system. The job analyses described previously will assure a more equitable division of labor. Moreover, the activities will be organized around positions rather than individuals. Thus work interruptions due to employee illnesses or terminations will be restricted to a minimum.

The specific designation of duties appearing on the cards would fix the scope of responsibilities for the various positions and thereby facilitate employee supervision. The said data would also furnish a practical guide for the employment and instruction of personnel, thus reducing the time normally devoted to these functions.

* * * *

It will be observed that no attempt was made to outline in detail the ramifications of the proposed plan. The diversity of the organizational structure prevailing in each hospital precludes such a presentation. However, the foregoing description provides an adequate pattern which may be modified to suit an institution's individual requirements.

In conclusion, the implementation of the recommended system should improve internal control, promote numerous economies, and substantially alleviate the administrative burden in the area of payroll supervision.

Frederick George Colley

By HENRY E. MENDES, C.P.A.

This is a brief biography of the only New York CPA to receive a grade of 100% in all four subjects of his CPA examination, taken at one sitting. It recounts the more important activities in the professional and industrial life of an early leader in our profession.

FREDERICK GEORGE COLLEY, born on March 7, 1872, at Monks Coppenhall, Crewe, County of Cheshire, England, was one of the many Britons who, coming to America towards the latter part of the nineteenth century, helped to mold what was then the comparatively small but fast-growing profession of public accountancy in the United States. Although he may not have been at all times during his varied career prominently in the forefront in professional activities, he left a definite imprint on the profession, nevertheless, in many important respects. As this biographical sketch attests, he had a most active and interesting life and, as is

known by those who were acquainted with him intimately, not without its tribulations.

In his youth, Colley attended the British National School and the Mechanics Institute, both at Crewe, and upon graduation in 1888 he entered the employ of the London and North Western Railway at Crewe. In 1889, Edwin Waterhouse, of the London firm of Price Waterhouse and Co., offered him a position in their London office, which he accepted; he eventually became the private secretary to Mr. Waterhouse, which position afforded him a wonderful and unique opportunity to become versed in accountancy at a high level, an opportunity of which, as evidenced by his subsequent accomplishments, he must have taken the fullest advantage. He left England in September, 1892, upon being transferred to the firm's first branch office—or agency—in America, which Lewis D. Jones had opened two years earlier at 45 Broadway, New York City; at that time the personnel of the organization consisted of Jones, William J. Caesar (in charge of the Chicago office), Sandys B. Foster, Edwin Chapp and Colley.

He resigned from Price Waterhouse & Co. sometime during 1895 to accept an important executive position in industry, i.e., he became secretary and treasurer of W. & J. Sloane, the well-known carpet merchants, where he remained until the latter part of 1898. He was engaged by Haskins & Sells on January 23, 1899, and remained with them until November of that year, at which time he left to accept the position of secretary and treasurer of the Bick-

This is the seventh in a series of articles on the History of Accounting in the State of New York. It was prepared by HENRY E. MENDES, C.P.A., at the request of the Society's Committee on History.

Mr. Mendes is a member and former Vice-President of our Society. He is also a member of the A.I.A. and the N.A.C.A. He is a member of the Society's Committee on State-wide Activities and Vice-Chairman of its Committee on Cooperation with Other Accounting Societies. He is a former Chairman of the A.I.A. Board of Examiners and of the New York Board of CPA Examiners.

Mr. Mendes is a partner in the firm of Touche, Niven, Bailey & Smart. Mr. Colley was his former partner in the predecessor firm of Touche, Niven & Co.

Frederick George Colley

ford & Huffman Company at Macedon, New York. That Company was merged in 1903 with the American Seeding Machine Company, of which Colley then became a director and the secretary and general auditor. In 1906, he returned to W. & J. Sloane in their San Francisco organization, remaining with them until sometime in 1908. From 1908 to 1911, he was president of the Anglo-American Button Company at Seneca Falls, New York, and on August 14, 1911, he returned to Haskins & Sells where he remained until November 30, 1912, leaving them to go with Touche, Niven & Co.

Colley became associated with Touche, Niven & Co., which was then operating as a corporation, on January 1, 1913, as a director with a participation in the earnings. Upon dissolution of the corporation as of October 1, 1913, he emerged, along with the others who were interested in the practice, with full partnership status. Among the matters which came under his aegis during his short connection with that firm was the opening, on October 17, 1913, of their Chicago office, at No. 10 South LaSalle Street, of which he was in charge for a short period pending the appointment of a resident manager. Colley withdrew from the firm as of July 31, 1917, to assume the comptrollership of the Pierce Oil Corporation. Due to internal dissensions, his stay with the Corporation was short-lived; it appears that he resigned sometime during 1918, after which he entered the practice of public accountancy on his own responsibility, having desk room for a while with Charles S. McCulloh, the then secretary of the New York State Board of Certified Public Accountant Examiners. Some time prior to or about August, 1919, Colley then associated himself with Arthur Young & Co. as a partner in the local New York partnership of the firm, and when the united firm embracing all offices was formed in 1921 he became a member of that firm, of which he remained a partner up to the date of his untimely

decease on September 2, 1933, at the age of 61, in his native England, at Wimbledon, where he had gone that summer to spend his vacation.

It was rather inevitable that Colley, being the aggressive personality that he was, coupled with his wide and diversified experience and the many positions he held both in the profession and industry, developed into a proficient and accomplished accountant. He had a keen mind, able to perceive the significance of business transactions and financial results with almost uncanny correctness, was master of the written word and, being blessed with an abundance of energy, was an indefatigable worker; above all, he was an intensely practical accountant and an inspiration for anyone who had occasion to meet him. He sat for the New York C.P.A. examination in June, 1912, and was given a rating of 100 per cent in each of the four parts of the examination, as a result of which there was issued to him New York C.P.A. Certificate No. 586, dated August 20, 1912, to which a blue seal inscribed "100%" was attached with the legend "With Honor" appearing alongside the seal. Subsequently, in 1923, Colley was the recipient of Wisconsin C.P.A. Certificate No. 187.

Immediately following receipt of his C.P.A. certificate, Colley was admitted to membership in The New York State Society of Certified Public Accountants as of August 30, 1912, and, by reason of that membership, became automatically, pursuant to the scheme then in vogue, a member in the American Association of Public Accountants, the earlier name of the American Institute of Accountants. Colley participated actively in the affairs of these professional organizations, having been, between 1913 and 1917, a member of the Legislation, the Arbitration and several other committees of The New York State Society; and, between 1916 and 1924, he was a member of the Committee on Education (for two terms) and the Committee on State Legislation—of

which he was chairman, 1922-24—of the American Institute. Also, he served as auditor of the Institute for the year 1921-22. He had been a member of the National Association of Cost Accountants since its inception in 1919, and at one time (1923) was a member of the American Society of Certified Public Accountants.

Colley was one of the prime movers in the formation of The Accountants Club of America, Inc. He attended the first organization dinner at the old Waldorf-Astoria Hotel in New York City, preceding the Club's incorporation, and was one of its incorporators. At the time of his death he was Chairman of its Advisory Board. Shortly after his decease, the Board of Governors passed a resolution in recognition of his loyalty to and his untiring efforts on behalf of the Club with an expression of "its sorrow at the great loss which the Club had sustained in the death of its esteemed member."

It should be chronicled, also, that Colley was interested in other organizations outside of the profession, notably, the American Society of Mechanical Engineers, of which he was an associate; the American Geographical Society, of which he was a fellow; and The American Association for the Advancement of Science, of which he was a regular member.

While Colley was not as prolific a writer as some other well-known accountants, he made some worthy contributions to the literature of accountancy. Of his more-important papers, six are listed on page 250 of the Accountant's Index, 1920, and two others on page 164 of the Second Supplement, 1923-1927. The first appearance of Colley's writings in the public prints, according to these lists, deserves special mention, revealing, as it does, an interesting and characteristic angle of his basic thinking and attitudes at the time he sat for the C.P.A. examination. It is a communication addressed by him to the "Editor, Journal of Accountancy", on July 15, 1912, in which he

expressed his opinion regarding C.P.A. examinations in general, but more particularly describing his impressions regarding the June, 1912, New York C.P.A. examination. For anyone who may wish to read the communication, it may be said that its significance lies largely in the fact that it was written shortly after he had sat for the examination but before knowing that he had passed with such signal honors as already reported herein. The communication appears under the title, "An Appreciation of the New York C.P.A. Examinations" on pages 148 to 150 of the August, 1912, issue of The Journal of Accountancy. However, for the benefit of anyone not having readily available back issues of the Journal and who may not care to read the whole letter, its two opening paragraphs, the really salient ones, are quoted in full below:

"As a candidate who took the June examination for certified public accountant in the state of New York, and before knowing the result, I desire to express my appreciation of the character of the questions in all of the first four subjects. I believe I am a practical accountant, for I first entered the office of a chartered accountant in London nearly twenty-four years ago, and have had a varied experience in American offices for twenty years. Circumstances have prevented my trying for the C.P.A. degree until this year, but I have watched the examination questions in many states, and particularly New York, for many years. I have heard the examinations in the past criticised as being "theoretical," "academic," and no real "test of a practical man." Surely this criticism cannot fairly hold against the recent examination. Whether I, personally, have been successful or not, I submit that the questions were eminently practical, covering a wide and proper range in all four subjects,—a fair and an excellent test of a man's right to practice as a C.P.A., and comparing well with the best examination ever held for certified public accountants in the United States or for chartered accountants in Great Britain—and I have read the questions set at the majority of them from the beginning of examinations to date.

"The refreshing feature of the examination is the evident purpose of the board of examiners to maintain, and to hold candidates to, standards. Practical accountants have preached for years of the necessity for standardizing nomenclature, classifica-

(Continued on page 304)

A State Enters the Commercial Paper Market

By LEO ROSENBLUM, C.P.A.

This note reports a unique development in corporate financing: the State of New Jersey is now making short-term loans to qualified corporations pursuant to brand-new enabling legislation.

Investments by commercial enterprises in the securities of national and state governments and municipalities are common. And long-term direct loans or guarantees by the federal government are everyday affairs.¹ But a new development is the entrance by a state government into the field of lending on short-term commercial paper.

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On April 10, 1952, the State of New Jersey contracted to loan the General Motors Acceptance Corporation \$12,000,000 for a period of nine months, interest to be at the annual rate of 2½ per cent. Walter T. Margetts, Jr., State Treasurer, arranged the loan under the authority of a bill approved only a week before. The bill,² introduced February 4, 1952, offered as its purpose the enlargement of the types of securities in which the state Director of Investment might invest to include—on approval by the State Investment Council—short-term corporate securities.³ Augmenting the list of permissible classes of investments was designed to "permit greater flexibility in investment and the possibilities of a higher yield without impairment of safety of investment."⁴

The new provisions were adopted on April 3, 1952; the arrangements with the acceptance corporation thus represented what financial circles opined "the first time that a state or other governmental body in the United States had entered the commercial paper market to lend public revenues pending the time when they would be required to be spent for purposes designated in the public budget."⁵

"The loan is designated," the *Wall Street Journal* noted, "to let the state's

¹ For a banker's views on such government aids see "Government Lending," address by Earl R. Muir, president of the Louisville (Ky.) Trust Company before the Second National Credit Conference, sponsored by the American Bankers Association, Chicago, January 25, 1950 (*Commercial and Financial Chronicle*, Vol. 171, No. 4880, February 9, 1950, pp. 617, 627).

² Assembly Bill 294 (1952); the Bill amended P.L. 1950, c. 270.

³ Assembly Bill 294, "Statement."

⁴ *Idem*.

⁵ *New York Times*, April 10, 1952.

idle funds earn interest pending the time they are needed to be spent;"⁶ much of the state's revenues collected in the spring will not be needed, State Treasurer Margetts observed, until late November.

The major source of the borrowing by the finance company, it was said, would be fees received by the State Motor Vehicle Department for the current annual registration of motor vehicles. Upon repayment, the bulk of the money will go for local school district aid.⁷

The State Treasurer is reported as having stated that the law permitting investment in commercial paper was passed after a survey showed that major educational institutions and corporations followed such practice.⁸

The text of this interesting bill, as approved, reads:

Limitations, conditions and restrictions contained in any law concerning the kind

or nature of investment of any of the moneys of any of the funds or accounts referred to herein shall continue in full force and effect; provided, however, that subject to any acceptance required, or limitation or restriction contained herein: the director of the division of investment shall at all times have authority to invest and reinvest any such moneys in, and to acquire for or on behalf of any such funds or accounts, bonds, and other evidences of indebtedness of the United States of America, and such bonds, and other evidences of indebtedness, which may be authorized or approved for investment by regulation of the state investment council, in which (1) savings banks in this state may legally invest; or (2) which are evidences of indebtedness issued by a company incorporated within and transacting business within the United States, which are not in default as to either principal or interest when acquired, and which have a maturity of not more than twelve months from the date of purchase; or (3); and, for or on behalf of any such fund or account, sell or exchange any investments or securities thereof.

⁶ See "Financing Business" column, April 11, 1952.

⁷ *Newark Evening News*, April 10, 1952.

⁸ *New York Times*, *op. cit.*



Frederick George Colley

(Continued from page 302)

tions and forms, etc., yet when the Interstate Commerce Commission comes out as an authorized supreme court of last resort, possessing all the final authority of law, and imposes upon the profession a classification of accounts for steam roads, for instance, some of these same accountants "howl" because said classification does not meet their narrow views in some particular. Likewise with the Public Service Commission and its accounting rules for various public utilities. These men overlook the fact that these governmental bodies have honestly sought and obtained the opinions of the very best practical men in the offices of railroads and other enterprises concerned."

The remainder of the communication deals almost wholly with a discussion of some of the questions and problems—placing special emphasis on the relationship of the theory questions to the practical problems—that were comprised in the several parts of the June, 1912 examination.

This biography, being restricted to

Colley's business and professional activities, does not attempt to cover his private life; but, it might be well to mention, in passing, that he married Effie M. Cushman in August, 1898, and that they had one child, Dorothy E. At one time the family had a modest estate at Lake Mahopac, Putnam County, N. Y.

In conclusion, Colley, beyond his aggressive and, what to his intimates sometimes appeared, irascible and emotional disposition, was of a generous and understanding nature. He was always ready to render assistance and impart sage advice to those seeking help—not only as it related to professional matters but, also, concerning problems of a strictly personal character. All those who knew him regretted keenly his passing at his early age, fully aware that they had lost a true and loyal friend.

New York State Tax Forum

Conducted by BENJAMIN HARROW, C.P.A.

New York University Law Review —1951 Survey of State Taxation

Each year, the New York University Law Review devotes one issue to a survey of New York Law. One chapter is devoted to State and Local Taxation. In the 1951 survey¹ this chapter was prepared by Jerome R. Hellerstein.²

New legislation included the adoption of a truck mileage tax, which was recently held to be constitutional by the New York Supreme Court.³ An amendment to Art. 16 allocates to New York sales made or services performed by independent agents working out of a New York office of an unincorporated business. This makes the allocation formula under the unincorporated

business tax law conform more closely to the allocation formula under the franchise tax law. Franchise tax returns need no longer be filed under oath and the five-year statute of limitations for auditing returns is now computed from the last day a return is required to be filed.

Corporate Franchise Tax

One case decided by the courts⁴ held that the classification of a corporation as a real estate corporation or a business corporation depended upon the business of the corporation as a whole, and not merely its activities in New York. In this case the corporation operated an apartment house in New York which, by itself, would qualify the corporation as a real estate company. But it also operated hotels in Ohio. That took the corporation out of the category of a real estate company.

Personal Income Tax

In *Appleby v. Bates*⁵ an estate held considerable real estate, including an interest in a mortgage which was wiped out after a foreclosure. The resulting loss was claimed as an ordinary business loss. The court however regarded the holdings of the estate as investments and not a business, and the loss was held to be a capital loss. Under the federal law the substantial real estate holdings of the estate would probably make the loss one resulting from the carrying on of a real estate business.⁶

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Mr. Harrow has been a member of the American Institute of Accountants since 1922 and is a member of the New York Bar. He is now serving on the Society's Committee on Federal Taxation, and is Chairman of its Committee on State Taxation. He is also a member of the Institute's Committee on Federal Taxation and its Council.

Mr. Harrow is engaged in practice as a certified public accountant and attorney in his own office in New York City.

¹ Volume 26, December, 1951, Number 5.

² Adjunct Assistant Professor of Law at N.Y.U. School of Law and an Editor of the Tax Law Review.

³ N. Y. State Tax Forum, page 253 (April, 1952, issue).

⁴ *Central Park Plaza Corp. v. Bates*, 278 App. Div. 607, (3rd Dept., 1951).

⁵ 278 App. Div. 12 (3rd Dept., 1951).

⁶ IT 3711, C.B. 162.

In another case⁷ a real estate valuation expert was held to be subject to the unincorporated business tax and not exempt as one engaged in a profession.

The New York law exempts from tax a person who though domiciled in New York maintains no permanent place of abode within the state; does maintain a *permanent* place of abode without the state, and spends no more than 30 days in the state during the taxable year. In one case⁸ a taxpayer worked with the Federal Government in Washington from August, 1942, until July, 1945. In Washington the taxpayer lived in a hotel and in a furnished room. His wife remained in New York in the apartment they occupied before he went to Washington. The court held that he was taxable in New York. In 1942 and 1945 he spent more than 30 days in New York. In 1943 and 1944 he did not maintain a permanent place of abode outside the state and continued to maintain a permanent place of abode within the state.

Estate Tax

Real property located in New York and owned by a non-resident is subject to the New York estate tax. In a recent case⁹ Surrogate Frankenthaler held that the real estate retained its status as real property even though the decedent had executed a contract of sale of the real estate before he died. The doctrine of equitable conversion does not transform a non-resident's interest in real estate into personalty for estate tax purposes. He still had a proprietary interest in real property since he had title at death, he had a right to hold the property and sue for the purchase price in case of default, and he could maintain an action for waste against the purchaser.

The same principle has long been ap-

plied to a resident decedent who owns real estate outside the state. The fiction of equitable conversion would not convert the real property into personalty, and hence a resident decedent who had entered into a contract for the sale of such property before his death would not be taxed at death on the theory that the contract was personal property with a situs in New York.

A bequest and devise to a wife for life with a power to invade the corpus for the support of the widow does not indefeasibly vest an estate in fee in the widow. That was the decision of the court in a recent case.¹⁰

Interest on Tax Claims

Several years ago the U. S. Supreme Court held¹¹ that interest on tax claims is not allowable in bankruptcy proceedings after the date the petition in bankruptcy is filed. The same rule has recently been applied to tax claims in assignment proceedings for the benefit of creditors.¹² In this case the federal government had a claim for social security and withholding taxes, and New York had a claim for unemployment insurance taxes.

Jeopardy Assessments

Sec. 373 of the Income Tax Law gives the State Tax Commission the power to revise a return "if in the opinion of the Tax Commission any return of a taxpayer is in any essential respect incorrect." It is the custom of the Commission to request a taxpayer to execute a waiver extending the limitation period if the period is about to expire before the Commission has an opportunity to audit a return. In a recent case¹³ the taxpayer refused to sign such a waiver, whereupon the Commission made an additional assessment arbitrarily increasing the reported net

⁷ *Application of Adelborg*, 278 App. Div. 806 (3rd Div. 1950).

⁸ *People ex rel Mackall v. Bates*, 278 App. Div. 724, (3rd Dept., 1951).

⁹ *In re De Steuer's Estate*, 198 Misc. 814 (1950).

¹⁰ *In re Brower's Estate*, 104 N.Y.S. (2nd) 658 (1951).

¹¹ *City of New York v. Saper*, 336 U. S. 328 (1949).

¹² *Pavone Textile Corp. v. Bloom*, 302 N. Y. 206 (1951).

¹³ *Brown v. State Tax Commission*, 199 Misc. 349 (1950).

income. The taxpayer sued for a declaratory judgment and an injunction alleging that the additional assessment was not based on any facts and that the sole purpose of the assessment was to obtain an extension of the period of limitations so that the Commission could make an examination of the taxpayer's books and records. The court held that the additional assessment was void. The Tax Commission will probably appeal the case. Mr. Hellerstein comments that the decision deserves prompt reversal since it negates the power of the State Tax Commission to make deficiency assessments. In its decision the court sanctions inquiry not into the merits of the assessment but into the motivation behind the assessment. This he thinks is a judicial interference with the Commission's assessing functions. He also thinks that if this decision is upheld or followed it "could wreak havoc with the practical administration of the tax laws."

Where Do You Bring Your Action in an Income Tax Proceeding?

A taxpayer brought an action to review a personal income tax proceeding in Kings County. The Tax Commission moved to dismiss the petition for lack of jurisdiction, or, in the alternative, to have the case transferred to Albany County. The court held¹⁴ that since the events that gave rise to the determination occurred in Kings County, and since the taxpayer resided there, conducted his business in Kings County and made his tax return in Kings County, the action was properly brought in that county. The court also refused to transfer the case to Albany County, noting that the Commission maintains a district office in Kings County. This decision should simplify tax proceedings.

Agreements to Pay the Income Tax of an Employee

Sec. 385 of the Income Tax Law specifically provides that "it shall be unlawful for any person to agree or contract directly or indirectly to bear the burden of any tax payable under the provisions of this article (16). Any such contract or agreement shall be null and void and shall not be enforced or given effect by any court."

This provision has been in the law since the first income tax in 1919. The legislature apparently intended to discourage such a practice since it wished to make taxpayers conscious of the fact that they were contributing toward the support of the state government. It also wished to avoid placing an additional burden upon the employer.

Suppose an employer does pay the income tax of an employee in addition to paying the employee's salary. Is the amount so paid additional salary or income to the employee? Under the Internal Revenue Code, which does not have such a prohibition, such payments do constitute additional income to the employee.¹⁵ In an early ruling of the Tax Commission¹⁶ it was held that the amount of tax so paid was not additional personal service compensation, but a gift and, therefore, exempt from income tax. In our opinion such a payment cannot qualify as a gift in an employer-employee relationship and the Tax Commission would probably reverse its earlier ruling if the situation came before it today.

A number of court decisions¹⁷ have held that contracts to pay such taxes were void and, therefore, would not be enforced or given any effect by a court.

The same principle applies to tax-free covenant clauses contained in bonds. The interest income is taxable in full without any credit or deduction.

¹⁴ *Brown v. Bates*, 102 N. Y. S. (2nd) 859 (1951).

¹⁵ Reg. 116, Sec. 405.101.

¹⁶ November 25, 1919.

¹⁷ *Di Ramondo et al. v. Lembo et al.*, (1946) 63 N.Y.S. (2nd) 906; *Reiss v. Reiss*, (1945) 186 Misc. 511; *Mahana v. Mahana*, (1947) 272 App. Div. 1013; *Metcalf v. Metcalf*, (1948) 274 App. Div. 744.

If the corporation had a provision in the bond agreeing to pay any portion of the income tax on the interest, the bond holder could not enforce such a provision in a court of law under Section 385. Realistically such payments by a corporation are additional interest and in our opinion represent additional income. Under the Internal Revenue Code the Treasury Department no longer allows a credit for the tax paid at the source in the case of bonds issued after January 1, 1934, although it does not consider the tax paid as additional income.

Sale of Stock Rights

The owner of stock in a corporation possesses at least two valuable rights. One is a right to receive dividends when authorized by the board of directors, and the other is a right to subscribe for additional stock before such stock is offered to the public. This latter right can be bought and sold the same as stock and therefore the method of determining gain or loss becomes a problem. Under the Internal Revenue Code rights are assigned a basis. The original cost of the stock with respect to which the rights are issued is apportioned between the rights and the stock in the ratio of the respective market values of the stock and of the rights at the time the rights are issued. The difference between the basis of the rights so determined and the selling price represents a gain or a loss. This method may be used under the state income tax law (Reg. Art. 492e, alternative methods of sale of stock rights).

In a recent change made in this regulation the taxpayer may, at his option, treat the entire proceeds of the sale of stock rights as capital gain. In that event the original cost or other basis of the stock in respect of which the rights were issued is not affected.

The state also prescribes a method for determining gain or loss on the sale of rights that is radically different from the method used under the Internal Revenue Code (Art. 492). To the

original cost of the stock is added the amount that would be paid if the right were exercised. The result is divided by the total number of shares that the taxpayer would then own to determine the theoretical basis for one share. A theoretical selling price is then determined as follows: to the cash received on the sale of a right is added the amount that would have to be paid upon the exercise of that right. The result becomes a theoretical selling price of one share of stock. The difference between this selling price and the basis theoretically determined is the resultant capital gain.

This weird computation probably accounts for the alternative methods that also may be used. Since each share owned by a stockholder carries with it one right, the owner of 100 shares would possess 100 rights. Taxpayers are sometimes confused by the fact that the number of rights they possess is not necessarily the same as the number of shares they may acquire with those rights. Suppose 100 rights entitle a shareholder to acquire 10 shares. That means that one right entitles a shareholder to 1/10 of a share. To acquire a full share such taxpayer would have to purchase 9 additional rights. The mere receipt of the rights does not constitute taxable income, nor does a failure to exercise the rights result in a deductible loss (Art. 492).

Franchise Tax—Exemption

Domestic corporations engaged in ocean commerce between the United States and foreign ports have been exempt from franchise tax under a law passed in 1942. This exemption expires on December 31, 1952. Under a law passed by the recent legislature this exemption has been extended to December 31, 1953. The bill awaits the signature of the governor.

Personal Income Tax— Installment Payments

The present Legislature changed the rules for installment payments for tax-

able years beginning on and after January 1, 1952. A tax of \$40.00 or more may be paid in four equal installments. If the tax is less than \$40.00, each installment except the last one must be in the amount of at least \$10.00. The installment dates for the third and fourth installments have been extended to seven and ten months, respectively, after the due date of the return. For calendar year taxpayers that means that the third installment will be due by November 15 instead of October 15, and the fourth installment by February 15 instead of January 15. This law awaits the signature of the governor.*

Stock Dividends as Principal or Income

An estate or trust may be confronted with the problem of determining whether a stock dividend belongs to an income beneficiary or whether it is part of the principal fund which ultimately will go to a remainderman.

The Personal Property Law of New York (Sec. 17a) provides that all stock dividends constitute principal unless a will or trust deed makes a contrary provision.¹⁸ Prior to this the New York law was set forth in *Matter of Osborne*.¹⁹ This provided that ordinary dividends were payable to the life beneficiary, regardless of the time when the surplus out of which the stock dividend was payable was accumulated. Even extraordinary dividends payable out of accumulated earnings were held to belong to the life beneficiary unless they impaired the principal of the trust fund. In that event the

extraordinary dividend either belonged to the principal or was required to be "apportioned between the trust fund and the life beneficiary in such a way as to preserve the integrity of the trust fund."

In a recent case²⁰ involving this issue, the Surrogate held that the stock dividends were properly allocated to the life beneficiary since the will was executed prior to the enactment of Sec. 17a of the Personal Property Law and there was no specific provision in the will for the disposition of stock dividends. If the will had been executed after the enactment of Sec. 17(a) the decision would have gone the other way. The case involved some stock dividends of the Standard Oil Company of New Jersey. They were all distributed out of current or accrued corporate income. The corporate resolutions indicated that stock dividends were distributed instead of cash in order to use the cash for financing of facilities or replacements. The court therefore held that the dividends were not extraordinary stock dividends and no apportionment was necessitated. Furthermore the surplus out of which the stock dividends were paid was accumulated long after the stock had been received as a trust asset.

At issue also were some distributions of stock of Standard Oil Company of New Jersey made by the Standard Oil Company of Indiana. As to these dividends the court held that they were not true stock dividends and so were properly distributable to the income beneficiary as cash dividends.

¹⁸ Effective since 1922.

¹⁹ 209 N. Y. 450.

²⁰ *Matter of Frances L. Bemis*, Surrogates Court, Westchester County, N.Y.L.J., February 8, 1952, p. 559.

* NOTE. The law has now been signed and became effective as of March 31, 1952.



Accounting at the S. E. C.

Conducted by LOUIS H. RAPPAPORT, C.P.A.

Securities of Reorganized Companies

DORMANT treasure, in the form of supposedly worthless securities, is the object of a treasure hunt in reverse by the Securities and Exchange Commission. The Commission is attempting to find the owners of securities of companies which have been reorganized.

In many instances, owners of stocks and bonds of defunct corporations have filed away the evidence of bad judgment in drawers, trunks and safe deposit boxes in an effort to forget. That they have forgotten too well is shown by the fact that \$25,000,000 in cash or securities of companies which have been reorganized is available for claim by these owners upon presentation of the old certificates for exchange. Some of these securities are the unregistered type.

Since many of the exchange privileges contain expiration dates which are rapidly approaching, the SEC has recently published a special report listing securities and cash available to investors in corporate reorganization proceedings, at no cost to them, in an attempt to locate these investors and "alert them to the danger that their inaction may deprive them of substantial sums of money to which they are en-

titled". In this connection, Donald C. Cook, SEC Chairman, stated that "it is quite likely that those investors who can least afford to lose their investments may be the very ones most likely to have forgotten or neglected their ownership of the securities or to be unaware of the pendency of the reorganization proceedings."

The experience in the recent Associated Gas and Electric case offers a striking example of what happens when investors "sleep" on their rights. In this case the reorganization plan initially provided 5 years within which securities entitled to participate could be exchanged for new securities. Toward the end of this period, securities valued at over \$7,000,000 remained unclaimed despite persistent efforts on the part of the Commission, the reorganization court and the reorganized company to locate investors entitled thereto. An extension of time was granted and extraordinary measures were invoked, which resulted in further tenders in exchange for an additional \$4,500,000 of the new securities. However, the remaining \$2,500,000 was lost for lack of claimants.

The Commission is distributing 30,000 copies of its report to banks, trust companies, brokers, dealers and investment advisers urging them to advise their customers and clients to take immediate action to avoid these "needless losses". The report lists approximately 200 securities which are required to be redeemed or exchanged for cash or new securities as a result of corporate reorganizations under Chapter X of the Bankruptcy Act in which the Commission has participated and under Section 11 of the Public Utility Holding Company Act of 1935. It points out that many of these ex-

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changes are required by court order to be effected on or before a specified date, after which time the old securities become worthless. Complete instructions concerning the proper action to be taken are furnished. The list does not include those securities involved in reorganization proceedings in which the Commission has not participated.

Holders of some of the Prudence Bonds mortgage participation certificates, which flourished widely in the late twenties, will be interested to know that their securities are listed in this SEC report. Others still in hiding include \$2,000,000 in certain issues of Commonwealth & Southern and \$2,000,000 of Central States Electric. Also in the utility field are certain issues of American Power & Light, American Water Works & Electric, Cities Service, Electric Bond & Share preferred, Electric Power & Light, Engineers Public Service, Federal Water & Gas, Interstate Power, Kings County Lighting, old Long Island Lighting, National Power & Light, New England Power Association, Niagara Hudson, North American Co., Portland Electric and Public Service of New Jersey.

Accountants should consider the advisability of checking the SEC's list with clients or suggesting such a check-up since many security-holders have written off worthless securities in the past and the reorganization may have

escaped their attention. The report, entitled "Securities Required to be Exchanged for Cash or New Securities" dated March 17, 1952, may be obtained from the Commission, whose address is 425—2nd Street, N. W., Washington 25, D. C.

Amendment of Form 8-K

Effective April 17, 1952, the Commission amended its Form 8-K* (under the Securities Exchange Act of 1934) to include a new item calling for disclosure of all matters voted upon (including results of the vote) by security-holders at their annual or special meetings. The purpose of this amendment is to make this information available to the security-holders of all registered companies, particularly those which are not subject to the Commission's comprehensive proxy rules. Registrants not listed on national securities exchanges are exempt from the proxy rules and therefore the nature and extent of the information contained in their proxy statements is left to the discretion of management.

The practical effect of this amendment is to require all registered companies, listed and unlisted, to file a Form 8-K shortly after each annual or special meeting of stockholders since even the election of directors must be reported.

* Form 8-K is a current report (informational) required of all registrants under the '33 Act or '34 Act. It must be filed within 10 days after the close of the month in which any one of the events required to be reported occurs. In general, these events are: changes in control, significant acquisitions or disposition of assets, material legal proceedings, securities changes and defaults, adoption of bonus, profit sharing and pension plans, securities options granted, revaluations, etc.



Notes on the New York State Unemployment Insurance Law

Conducted by SAMUEL S. RESS

Value of Gratuities and Tips

THE value of tips and gratuities received by an employee in the regular course of his employment from a person other than his employer is taxable for New York State Unemployment Insurance but not for Federal income tax withholding purposes. The employee is required to report receipt of the tips as income on his federal income tax return. The Federal Old Age and Survivors Insurance Tax and the Federal Unemployment Tax are not payable on tips or gratuities paid directly to an employee by a customer of an employer, and not accounted for by the employee to the employer. When tipping is prohibited and a service charge is added to each bill, the amounts so paid are taxable wages for Federal payroll tax purposes.

The New York State rule has been the subject of much controversy and two recent Appellate Division decisions handed down on the same day, March 12th, 1952, seem to hold two ways, depending upon some very close factual distinctions for the final conclusion as to what value shall be placed on tips and gratuities received by employees.

In the *Matter of the Liability for*

Unemployment Insurance Contributions under Article 18 of the Labor Law of David Erwich, et al., Appellants, and Edward Corsi, Respondent (Appeal Board Case #25,412-50), the Appellate Division unanimously affirmed the Appeal Board which had increased for contribution purposes from two cents per game to five cents per game, the value of tips received by pin boys at the appellant's bowling alleys.

The tips involved were paid by patrons to the employer and subsequently turned over to the pin-boys at the end of each working day. There is a rule promulgated by the Industrial Commissioner, that the value of tips received by a pinboy shall be equal to the amount certified by him in a statement to his employer. In the absence of such a statement such value shall be two cents a game (Rules of the Commissioner—Rule 10). The Appeal Board has held that the rule was not applicable, since a tip of five cents a game was paid directly to the Employer.

In the *Matter of the Claim for Benefits under Article 18 of the Labor Law made by Sadie Gold, Respondent; Edward Corsi, Industrial Commissioner, Appellant* (Appeal Board Case #22,831-50), the Appellate Division reversed the Appeal Board. In this case the claimant was a chambermaid in a summer hotel. It was the custom of guests to tip hotel maids in that hotel and the claimant received \$400.00 in tips during that summer. She did not file a statement with the Employer of the amount of her tips. The Employer did not include such amount in his Unemployment Insurance Tax Return.

SAMUEL S. RESS has been an Associate Member of our Society since 1936, and is also a member of the Bar. He has specialized in the payroll tax field since the inception of this type of legislation in 1936.

Dr. Ress is a member of the Society's Committee on Clothing Manufacturing Accounting and on Labor and Management.

The Appeal Board had held that the Commissioner had the duty of determining the value of gratuities, which duty could not be delegated to employees.

The Appellate Division reversed the Appeal Board because it found that Section 517 of the Labor Law requires the Industrial Commissioner to determine the value of gratuities received by employees in the course of their employment and that such gratuities shall be deemed and included as part of the employees remuneration. Section 597 provides that the amount of benefits payable was to be determined in accordance with the regulations and procedure established by the Commissioner. The Industrial Commissioner had established a regulation by which the value of gratuities or tips received by hotel chambermaids is determined from the amounts given in a statement from the employee to the employer and if no statement is given, it is determined to be "nil."

The Court also stated:

"The Commissioner could not, of course, determine the value of gratuities by personal or officially delegated observation and the very nature of the gratuities requires that the determination of the amount depends upon the calculation and report of the recipient."

"We think the requirement of the Commissioner's regulation that reports of gratuities be made to employers and if not so reported, to be regarded as nil, is an entirely reasonable one and it seems to represent the general view of representatives of chambermaids in hearings before the Commissioner. The requirement adequately meets the situation in areas where gratuities are substantial enough to be important in computing Unemployment Insurance benefits; a situation that is met by the filing of a statement."

Legislative Changes in the Unemployment Insurance Law

Seven bills relating to Unemployment Insurance Legislation were passed by both houses of the legislature. Two of the changes in the Unemployment Insurance Law are of particular importance to employers. Chapter 369 of the laws of 1952 permits apportionment of

certain bi-weekly payrolls for tax-rating purposes under the Unemployment Insurance Law. The quarterly decline in remuneration paid to an employee is one of the factors used in determining the Employer's tax rate. If the sum of the percentage declines in quarterly remuneration over a three-year period is more than 50 percent, there will be an adverse effect on the Employer's tax rate. Before the amendment, employers whose payrolls were on a bi-weekly basis found that there was a drop in quarterly remuneration twice a year. This drop occurs because in alternate quarters, there are 7 bi-weekly payrolls as against 6 payroll periods in the quarters following: thus it was possible for an Employer to suffer a 2/10 of 1 percent increase in the Unemployment Insurance Tax rate through no fault on the part of the Employer and only because he paid his payrolls bi-weekly.

The law now permits an Employer who pays remuneration bi-weekly, to request the Division of Placement & Unemployment Insurance to apportion equally the total amount of remuneration paid in excess of 6 bi-weekly payments in any calendar quarter, among 4 calendar quarters in the year in which the remuneration was paid. The same procedure is presently permitted for apportioning bonuses and other lump sum payments. The rules applicable to the apportionment of bi-weekly payments some time prior to the calculation date will be announced by the Unemployment Insurance Division.

Chapter 496 of the Laws of 1952 changes the definition of remuneration for New York State Unemployment Insurance Tax purposes. The new definition goes into effect beginning with the report due for the 2nd quarter of 1952 payable on or before July 31, 1952.

The principal stockholders, that is, stockholder employees, each holding 25% or more of the voting stock of a corporate employer were excluded from the law and no taxes paid on their remuneration to the State of New

York under the amendment enacted last year. The new law retains the exclusion by employers of less than 8 employees but for employers of 8 or more, it includes remuneration for such individuals for tax purposes only. In this way the tax is paid at the experience rate, which may be less than 2.7% to the State, and the taxpayer may take a full 2.7% credit on his Federal Unemployment Tax return at the end of the year.

Dismissal payments are also excluded from the definition of remuneration, similar to the treatment given principal stockholders. It is provided that such payments should be deemed wages solely for tax purposes if the tax is imposed under the Federal Unemployment Tax Act. However, dismissal payments cannot be used for benefit calculation or credit. The present exclusion of students' wages is continued for benefit purposes; however, New York State contributions may be paid on students' wages at the New York State Experience Rate, with resulting credit against the tax imposed by the Federal Unemployment Tax Law.

If the New York Employer has on his payroll students or principal stockholders or grants dismissal payments and has an effective tax rate of 2.1%, his total tax liability, State and Federal, would be reduced by reason of this amendment. Instead of paying a full 3% to the Federal government, the New York Employer of 8 or more, will pay only 3/10 of 1% under the Federal Unemployment Tax Act and 2.1% under the New York law, totalling 2.4%. Tax contributions from stockholder employees, dismissal wages and student wages will be credited to the general account and not to the individual Employer accounts.

Federal Income Tax Withholding On N. Y. Disability Contributions

Where a covered employer had a qualified plan on April 13, 1949, requir-

ing the employer to pay the entire cost of his disability plan, the employer could not be considered as assuming any liability for his employees which would result in taxable income to them. Consequently, no withholding on the "employee's share" of the cost of the plan.

However where the employer pays the employee's share of the New York disability benefits contributions, and not under the above circumstances, the amounts so assumed by the employer are income to the employee and are subject to withholding for Federal Income Tax purposes. This rule will be enforced only with respect to wages paid on and after January 1, 1952, according to IT 4075.

New Legislation

Five other bills passed by the Legislature provide:

1. Veterans' base year is adjusted so as to exclude time spent in the armed services in computing the base year of a veteran claimant for Unemployment Insurance benefits.
2. The time spent in the armed service by a reservist is also excluded from the base year for benefit purposes.
3. Play producers who primarily produce plays for non-profit organizations that are exempt from coverage, are not exempted from the Unemployment Insurance Law.
4. Unemployment insurance coverage is extended to *per diem* and temporary employees of the State and of municipalities which elect coverage.
5. Inconsistencies relating to the base and benefit year and also changing the time for an Employer to elect coverage, are corrected in another amendment to the Unemployment Insurance Law.

Office and Staff Management

A forum for the exchange of views and information on all aspects of the administration of an accounting practice.

Conducted by MAX BLOCK, C.P.A.

System Data For Staff

ONE of the most valuable services that we can furnish clients is that of streamlining paper-work, reducing clerical costs, and improving controls and efficiency. Conditions requiring improvement usually can be detected by alert and informed accountants in the course of auditing. It is therefore highly desirable that staff members be kept constantly aware of the importance of detecting system deficiencies and any other opportunities for improving a client's clerical operations. Moreover, they should be furnished "ammunition" to help them in this work.

This goal can be achieved by a program along these lines:

1. A partner or qualified staff member should be appointed to the status of system expert. He should be required to keep informed on business machines, forms, and procedures.

2. The system man should be available for consultation by other members of the organization and to visit clients' offices to make general or specific surveys. Such services frequently will create additional fees and better satisfied clients.

3. One or two magazines dealing with office machines and methods

should be received monthly and reviewed by the system man for new ideas, and should be placed in the office library.

4. A bulletin should be issued to the staff from four to six times a year containing the following data:

- a) New ideas in equipment, forms, and methods.

- b) An explanation of the workings and uses of one or two standard bookkeeping machines to acquaint staff members with them. Over a period of a year or two every important machine will have been described.

5. Forms and advertising circulars obtained from manufacturers and other sources should be supplied to the staff, or a copy placed on the office bulletin board.

Staff Rotation

The debate over staff rotation policies will probably never be terminated with universal agreement. One school of thought holds that staffmen should be assigned according to availability (assuming that they are qualified) for an engagement regardless of whether or not they handled the prior audit. Another group holds that a specific man should be assigned to a specific job for an indefinite period.

Each group has meritorious grounds for its position. The first one feels that a qualified auditor should be able to step into a new engagement and, with the assistance of a good supporting file containing a system memo and audit pointers, do a good job. This gives the client the advantage of new observers and keeps men from getting into a rut. It also holds down delays in assignments due to unavailability of a certain

MAX BLOCK, C.P.A. (N.Y., Pa.) is a Director of the New York State Society of Certified Public Accountants and has been the chairman of the Society's Committee on Administration of Accountants' Practice. He is a member of the firm of Anchin, Block & Anchin.

The New York Certified Public Accountant

auditor. As to the second group, they feel that a steady man gets to know the client's needs, system, and personnel and is therefore in a position to render the most satisfactory services.

There is a middle ground between these two positions which retains the advantages of both yet avoids such undesirable conditions as excessive disruption of clients' organization by new auditors and inadequate "change of scenery" for staff members who are seldom given new engagements.

By having two men acquainted with every engagement, rotation of staff is accomplished, but only between the same two men. Even under these conditions men should occasionally be assigned to a new audit to diversify their experience and to spark their interest generally. Assignments should rarely be delayed because either of the two men should be available. Vacations, illness, resignations, and congestion will not be problems where more than one man is available. Yet each man will have a sound acquaintance with the engagement and personnel, and each may be a check on the other.

The two-man arrangement is applicable to all ranks, seniors, semi-seniors, and juniors. In some account-

ing firms two partners must be familiar with each client.

Tax Return Reproductions— Added Note

Last month's column disclosed the Treasury's position with respect to accepting copies of certain returns and schedules other than on the Department's own forms. This arrangement, it was pointed out, lends itself to very substantial economies in the preparation of tax returns, particularly of personal income tax returns. A copy of a letter from the Commissioner to the Chairman of our Society's Committee on Federal Taxation, Benjamin Grund, was submitted in the column, wherein was disclosed a list of forms that may be reproduced and the conditions to be observed. However, the reproduction of tax returns, photographically or otherwise, has a problem with respect to the duplication of the material on both sides of a page. This obstacle has now also been cleared by the Commissioner's willingness to accept reproduced returns utilizing only one side of each sheet. A copy of the Commissioner's letter covering this point appears below:

U. S. TREASURY DEPARTMENT WASHINGTON 25

April 11, 1952

IT:RF:PR
LB

The New York State Society
of Certified Public Accountants
677 Fifth Avenue
New York 22, New York

Att: Mr. Benjamin Grund
Chairman, Committee on
Federal Taxation

Gentlemen:

Receipt is acknowledged of your letter dated April 3, 1952 with further reference to your letter of February 21, 1952 and Bureau reply thereto dated March 3, 1952, concerning the reproduction of Federal income tax forms.

You inquire whether substitute forms reproduced in the manner described in Bureau letter of March 3, 1952 will be regarded as satisfying the requirements of that ruling if they are printed on only one side of the paper, with the reverse side left blank.

You are advised that reproductions of the specified forms which satisfy the four stated conditions in Bureau letter dated March 3, 1952, will be acceptable as substitutes for the corresponding official forms even though the pages comprising the substitute forms are printed on only one side of the paper with the reverse side left blank.

Very truly yours,

(sgd) JOHN B. DUNLAP,
Commissioner.

The Excess Profits Tax Exchange

Conducted by DAVID ZACK, C.P.A.

THIS column is a clearing house for questions, problems and comments regarding Excess Profits Taxes. Items of general interest will be published herein and full credit will be given all contributors unless they request otherwise. All inquiries and contributions should be addressed to:

Editor, The Excess Profits Tax Exchange
The New York Certified
Public Accountant
677 Fifth Avenue
New York 22, New York

New Corporations

B. F. Schonberger, C.P.A., points out an inequitable application of the recently enacted Section 430(e)(B)(ii) of the Internal Revenue Code in the following question:

"During 1951, two individuals, A and B, caused the organization of Corporation X. A and B each owned 50% of the issued and outstanding stock of Corporation X. The corporation qualifies in every respect as a new corporation under Section 445

of the Internal Revenue Code. Corporation X keeps its books and files its tax returns on a calendar year basis. The corporation owns and operates a retail apparel store in New York City.

"On March 31, 1952, individuals A and B purchased from a stranger all of the issued and outstanding stock of Corporation Y which has owned and operated a retail store in Ohio for over ten years.

"Does Corporation X qualify for the benefits of Section 430(e)(i) of the Internal Revenue Code which provides special maximum excess profits tax limitations for new corporations?"

Section 430 (e) (2) (B) (ii) adds to the life of a "new corporation," for the purpose of qualification for the reduced maximum rates, the period of existence of:

"Any corporation if a group of not more than four persons who control the taxpayer at any time during the taxable year also controlled such corporation at any time during the period beginning twelve months preceding their acquisition of control of the taxpayer and ending with the close of the taxable year; but only if at any time during such period (and while such persons controlled such corporation) such corporation was engaged in a trade or business substantially similar to the trade or business of the taxpayer during the taxable year. For the purpose of this clause, the term 'control' means the ownership of more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock. A person shall not be considered a member of the group referred to in this clause unless during the period referred to in this clause he owns stock in such corporation at a time when the members of the group control such corporation and he owns stock in the taxpayer at a time when the members of the group control the taxpayer. For the purpose of this clause, the ownership of stock shall be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) shall be determined only with respect to the individual's spouse and minor children."

DAVID ZACK, C.P.A. and member of the Bar, is a member of our Society and of its Committee on Federal Taxation. He is Chairman of the Committee on Municipal and Local Taxation.

Mr. Zack is a Lecturer on Taxation at The City College (N. Y.) School of Business and Civic Administration and at the New York University Institute on Federal Taxation.

Mr. Zack has written on tax matters for various publications. He is a partner in the firm of David Berdon & Co., Certified Public Accountants.

Inasmuch as stockholders A and B were in control of both Corporations X and Y during the calendar year 1952, and since both corporations were engaged in a substantially similar business (retail apparel), Corporation X will be deemed to have commenced business ten years ago when Corporation Y started its operations. Corporation X would therefore seem to be denied qualification for the favorable excess profits tax limitations provided for new corporations during the first five years after they commenced business.

This result is obviously inequitable and it is difficult to imagine that it was intended by the Congress. It is another example of inequities which flow from legislature attempts to plug anticipated loopholes by specific and detailed safeguards which could be better left to the Bureau and the Courts to apply. It is to be hoped that this situation will be alleviated by the Congress or that its impact may be softened by the Bureau's Regulations and interpretations which have not yet been issued on this point.

Practitioners should keep this provision of the law in mind when advising prospective purchasers of closely held corporate stock. A purchaser may unwittingly acquire stock in a corporation which he believes is protected by the maximum excess profits tax rates provided in Section 430(e)(i) and find that some activity of the stockholder sellers disqualify the corporation for the current taxable year under Section 430(e)(2)(B)(ii).

Dividend "Throw-Back" Rule— Epilogue

Last month's column indicated the discrepancy between the Commissioner's instructions regarding the dividend throw-back rule and an informal ruling regarding the same subject. The informal ruling has since been modified by the Bureau of Internal Revenue to conform to its instructions on the EP

form in respect to the base period capital addition.

Extension of Base Period Loss Adjustment

Section 330(b) of the Revenue Act of 1951 extended the period of time for the carryover of a net operating loss originating in a year beginning before January 1, 1950 from two years to three years. Section 433(a)(1)(J)(iii) permits corporations who compute their excess profits credit for the first excess profits tax year under either the income method or the historical invested capital method to elect to use a base period net operating loss carryover in lieu of its regular net operating loss carryover. This election must be made irrevocably in the tax return for the first excess profits tax year and in that event the base period loss is treated as a net operating loss carryover from the last taxable year ended before July 1, 1950. In most cases this means a three year carry forward of the base period loss instead of the two year period previously provided.

In some cases, the last preceding non-excess profits tax year may be a short period commencing after December 31, 1949 and expiring before July 1, 1950. In that event, the new five year carry-forward provision of Section 122(b)(2)(B) would apply to the base period loss adjustment.

It must of course be remembered that the base period loss adjustment may not be applied in any year in which the adjusted invested capital or so-called asset method is used. Since the initial election of the base period loss adjustment in the first excess profits tax return irrevocably forecloses the use of the normal net operating loss carryover from base period years, the taxpayer is again forced to make an irrevocable election before knowing all the facts which should influence its judgment. Retroactive legislative relief seems definitely in order in this case.

Book Reviews

(Continued from page 269)

The author has long been known for his outstanding work in this field. He presents herein the distilled essence of his twenty years of specialized research. Incidentally, he has a very readable style.

MICHAEL A. C. HUME

Chairman,
Committee on Accounting Machinery

The Accounting Mission. Lectures in accounting research delivered under the auspices of The Commonwealth (of Australia) Institute of Accountants. By F. Sewell Bray. Melbourne University Press; Cambridge University Press (American Branch), New York, N. Y., 1951. Pages: vi + 89; \$2.75.

This work contains the substance of a series of seven lectures delivered one each at the seven universities in Australia. The talks were given under the Commonwealth Institute of Accountants endowment providing for an annual accounting research lecture at each of the schools.

The author, senior partner of a London firm of chartered accountants and also Senior Nuffield Research Fellow in the Department of Applied Economics of the University of Cambridge, was invited to deliver the entire series of lectures; they took place during September and October, 1949. While in Australia, Mr. Bray also submitted a paper at the Australian Congress on Accounting at Sydney, in November, 1949; this paper is presented as Appendix I.

For a long period Mr. Bray has been interested in research in the field of the relation between economics and accounting. The titles of his talks, dealing with the use of accounting techniques in the measurement of national income, were as follows:

- An Academic Accountant's Apology
- The Formal Structure of Accounts-Invariance
- Social Accounting
- The Principles of Accounting Measurement
- The Accounting Implications of the Identity-Saving Equals Asset Formation

Standards of Effectiveness Accounting Research

The paper before the Australian Congress on Accounting was called "The Influence of Economic Ideas on the Formal Structure of Accounts and the Principles of Accounting Measurement."

In the lecture on "The Principles of Accounting Measurement," Mr. Bray noted that "... no careful inquirer can fail to be struck by the variety of accounting methods employed to achieve like measurements." He commented further: "... this question of measurement ... now needs looking at and I much welcome some of the ideas which are coming out of America ... [including] development in the line of precise mathematical concepts. ..."

Mr. Bray reported the two areas in which better "principles of accounting measurement" are required, namely: "the economic foundation requiring real things to be symbolized by like units at defined points in time," and "the sharpening of such concepts as will impose on accounting a more relevant degree of preciseness."

In the Canberra University College lecture he outlined a plan for the extension of accounting devices used in business to the field of social accounting. His comments furnish material for speculation by accountants interested in the application of commercial accounting techniques to public finance and social accounting.

In summary, the reviewer quotes from the Foreword to "The Accounting Mission," contributed by Mr. A. A. Fitzgerald of the University of Melbourne: "The series [of lectures] ... constituted an integrated study of the most recently developed use of accounting, a use which may eventually transcend in importance any other uses of accounting, valuable as they are."

LEO ROSENBLUM

School of Business and
Civic Administration
The City College of New York



IT WAS A BRIGHT EARLY DECEMBER DAY and Lieutenant Hudner was flying a Korean combat mission alongside another plane piloted by Ensign Jesse Brown. A burst of flak caught the ensign's plane and he went spinning down,



afflame. Despite the presence of enemy ground troops, Lieutenant Hudner then deliberately crash landed near his flame-trapped shipmate. He radioed for help, after which he fought to keep the fire away from the fatally injured ensign until a rescue helicopter arrived. Today Lieutenant Hudner has something to say to you:

"Maybe if America had been strong enough to discourage aggression two years ago, my friend, Jesse Brown, might be alive right now.

So might thousands more of our Korea dead.

"For it's only too sadly true—today, in our world, weakness invites attack. And *peace is only for the strong.*

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★ ★ ★

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Lieutenant (jg)
Thomas Hudner, Jr.

U.S.N.

Medal
of Honor



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**W-2 FORMS
FOR 1952**

Form W-2
Internal Revenue Service
U. S. Treasury Department

WITHHOLDING STATEMENT - 1952
Wages Paid and Income and F. I. C. A. Taxes Withheld

EMPLOYEE TO WHOM PAID (Print name, full address, and Social Security Number)

EMPLOYER BY WHOM PAID (Print name, full address, and Social Security Number)

FEDERAL INSURANCE CONTRIBUTIONS ACT
Total F.I.C.A. wages (Single persons only) paid in 1952: \$

INFORMATION FOR INCOME TAX RETURN
Total wages (single persons only) paid in 1952: \$
Federal income tax withheld, if any: \$

NOTICE TO EMPLOYEE
This statement is important!
It must be attached to your U. S. income tax return for 1952.
If your wages were subject to F.I.C.A. taxes but are not shown on this F.I.C.A. statement, information to which you are entitled, but not more than \$3.00.
See instructions on other side.

Approved by

- U. S. Treasury Department
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- Various Cities where practicable
- Special 5 part form for States of New York and North Carolina

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